

**NEW ISSUE--BOOK ENTRY ONLY**

See "RATINGS" herein

*In the opinion of Jones Hall, a Professional Law Corporation, San Francisco, California, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants as described herein, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. Interest on the Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.*

**\$20,000,000**

**ABAG Finance Authority for Nonprofit Corporations  
2004 Variable Rate Demand Revenue Bonds  
(The Thacher School)**

**Dated: Date of Issuance****Price: 100%****Due: September 1, 2034**

The Bonds will initially bear interest at a Weekly Interest Rate (which shall not exceed the Maximum Rate of ten percent (10%) per annum) payable on the first Business Day of each month, commencing January 3, 2005. The Bonds may be converted to the Fixed Rate Mode. The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2004 (the "Indenture"), by and between the ABAG Finance Authority For Nonprofit Corporations (the "Authority") and The Bank of New York Trust Company, N.A. as trustee (the "Trustee"). The Authority will lend the proceeds of the Bonds to The Thacher School (the "School"), pursuant to a Loan Agreement, dated as of December 1, 2004 (the "Loan Agreement") between the Authority and the School. The Bonds are special obligations of the Authority payable solely from and secured by certain Revenues pledged under the Indenture, consisting primarily of Loan Payments made by the School under the Loan Agreement and certain other funds as provided in the Indenture.

The Bonds will finance (a) construction of the Commons Project; reimbursing the School for two faculty residences and the installation of a new running track; construction of an on-campus visiting faculty residence; construction of a new fitness center; construction of a new athletic field and improvements to the irrigation system; construction of a new health center; improvements to the Lower School Dormitory; and construction of replacement dormitories (the "Project") and (b) certain costs of issuance of the Bonds. See "THE PROJECT" herein.

The Bonds will be issued in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only. The Bonds will have denominations of \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 while in the Weekly Mode. Purchasers of the Bonds will not receive physical certificates representing their beneficial ownership interests in the Bonds purchased. Payments of principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "BOOK-ENTRY ONLY SYSTEM" herein.

**The Bonds are subject to optional and mandatory redemption and optional and mandatory tender, as described herein.**

A liquidity facility providing an additional source of payment of the purchase price of any Bonds subject to optional tender by the holder thereof, or subject to mandatory tender, is expected to be provided on the date of issuance of the Bonds pursuant to a Standby Bond Purchase Agreement (the "Liquidity Facility") delivered by KeyBank National Association (the "Bank" or "Initial Liquidity Provider"), subject to the terms and conditions described herein. The School is obligated to provide a Liquidity Facility for any of the Bonds that are subject to optional or mandatory tender for purchase in order to provide a source of payment, in addition to funds of the School, for the purchase price of Bonds that may be subject to optional or mandatory tender pursuant to the Indenture; provided, however, that the School may provide self-liquidity, in lieu of a Liquidity Facility, after certain conditions are satisfied. The Liquidity Facility is scheduled to expire on December 1, 2009, or earlier, upon the occurrence of certain events, unless renewed or extended.

**This Official Statement, in general, describes the Bonds only during the Weekly Mode, which is the period beginning on the date of delivery of the Bonds and ending on the earlier of the date on which interest is converted to the Fixed Rate or all Bonds are redeemed.**

**THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY MONEYS OR ASSETS OF THE AUTHORITY (OTHER THAN LOAN PAYMENTS AND CERTAIN MONEYS HELD UNDER THE INDENTURE) OR ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF THE PRINCIPAL, PREMIUM (IF ANY), OR INTEREST PAYABLE WITH RESPECT TO THE BONDS. THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, ABAG, THE MEMBERS OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE, OTHER THAN THE AUTHORITY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE FAITH AND CREDIT OF NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY, ABAG, AND THE MEMBERS OF THE AUTHORITY AND ABAG) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM (IF ANY) OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.**

*This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Potential investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.*

The Bonds are offered by the Underwriter when, as and if issued by the Authority and accepted by the Underwriter, subject to the approval of legality and certain other legal matters by Jones Hall, a Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California, for the Bank by Holme Roberts & Owen LLP, San Francisco, California, for the School by Nordman, Cormany, Hair & Compton, Oxnard, California and for the Underwriter by Sheehan Phinney Bass + Green, P.A., Manchester, New Hampshire. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about December 7, 2004.



**George K. Baum & Company**  
INVESTMENT BANKERS SINCE 1928

This Official Statement is dated December 3, 2004

The information relating to the Authority contained herein under the headings "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority" has been furnished by the Authority. All other information contained herein has been obtained from the School and other sources (other than the Authority) that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by and is not to be relied upon or construed as a promise or representation by the Authority.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

No dealer, broker, salesperson, or any other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby, and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Bank, the School or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the Bank, or the School since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

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## **OFFICIAL STATEMENT**

**\$20,000,000**

### **ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS 2004 VARIABLE RATE DEMAND REVENUE BONDS (THE THACHER SCHOOL)**

## **INTRODUCTION**

The purpose of this Official Statement, including the cover page hereof and the appendices hereto, is to furnish certain information relating to the issuance of the 2004 Variable Rate Demand Revenue Bonds (The Thacher School) (the "Bonds"), in the aggregate principal amount of \$20,000,000 by the ABAG Finance Authority for Nonprofit Corporations (the "Authority").

The Bonds will be issued pursuant to a Indenture of Trust, dated as of December 1, 2004 (the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds are issued under authority of Article 1 through Article 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), which authorizes the Authority to issue bonds for the common purposes of its members, including for the purpose of providing financing for nonprofit corporations.

The proceeds of the Bonds will be loaned to The Thacher School (the "School") (i) to reimburse the School for certain property acquisitions and improvements on the School's campus comprising a portion of the hereinafter-described Projects, (ii) to finance additional facilities for the School comprising the remaining portion of the Projects, (iii) to finance capitalized interest with respect to the Bonds, and (iv) to pay costs related to the issuance of the Bonds. See "PLAN OF FINANCE" herein.

The Bonds are to be issued under and are equally and ratably secured by the Indenture, which will create a lien on all moneys and securities (except the Rebate Fund) held from time to time by the Trustee for the benefit of the holders of the Bonds under the Indenture. Pursuant to the Indenture, the Authority will assign to the Trustee substantially all of its right, title and interest in and to the Loan Agreement, dated as of December 1, 2004 (the "Loan Agreement"), between the Authority and the School, including all right to receive loan payments to be made by the School, but reserving to the Authority certain rights (the "Reserved Rights"), which rights are reserved by the Authority for its own benefit.

KeyBank National Association (the "Bank") has committed to issue, effective as of the date of issuance of the Bonds, a Standby Bond Purchase Agreement (the "Liquidity Facility") securing payment of the purchase price of the Bonds to the extent not paid from the proceeds received from remarketing of such Bonds by the Remarketing Agent. See "THE LIQUIDITY FACILITY AND THE BANK" herein and Appendix F hereto.

This Official Statement contains brief descriptions and summaries of, among other matters, the Bonds, the Indenture, the Loan Agreement, the Authority, the School, the Liquidity Facility, the Bank and certain other matters. Those descriptions of the Bonds and of other documents contained in this Official Statement are qualified in their entirety by reference thereto and by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Certain capitalized terms and phrases used in this Official Statement and not otherwise expressly defined herein have the respective meanings assigned thereto as set forth in Appendix C hereto under "Definitions."

Certain information relating The Depository Trust Company (“DTC”) and the book-entry-only system has been furnished by DTC. Appendix A contains certain information about the School and Appendix B includes certain audited financial statements of the School. Appendix C contains definitions of certain terms used in this Official Statement and a summary of certain provisions of the Trust Indenture and the Loan Agreement. Appendix D contains the proposed form of opinion of Bond Counsel to be rendered in connection with the issuance and delivery of the Bonds. Copies of the documents referred to herein may be obtained as described under “MISCELLANEOUS.”

## **THE AUTHORITY**

The Authority is a joint powers agency duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, and the Act in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY MONEYS OR ASSETS OF THE AUTHORITY (OTHER THAN LOAN PAYMENTS AND CERTAIN MONEYS HELD UNDER THE INDENTURE) OR ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF THE PRINCIPAL, PREMIUM (IF ANY), OR INTEREST PAYABLE WITH RESPECT TO THE BONDS. THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, ABAG, THE MEMBERS OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE, OTHER THAN THE AUTHORITY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE FAITH AND CREDIT OF NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY, ABAG, AND THE MEMBERS OF THE AUTHORITY AND ABAG) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM (IF ANY) OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

## **THE SCHOOL**

The School is a nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code that operates an independent, co-educational, college preparatory boarding and day school serving grades 9-12. For information concerning the School, see Appendix A—“THE THACHER SCHOOL GENERAL INFORMATION”.

## **THE PROJECT**

The Project is comprised of construction of the Commons Project; reimbursing the School for two faculty residences and the installation of a new running track; construction of an on-campus visiting faculty residence; construction of a new fitness center; construction of a new athletic field and improvements to the irrigation system; construction of a new health center; improvements to the Lower School Dormitory; and construction of replacement dormitories. See Appendix A – “THE THACHER SCHOOL GENERAL INFORMATION” for a further description of the Project.

## **PLAN OF FINANCE**

The Bonds will finance (a) construction of the Commons Project; reimbursing the School for two faculty residences and the installation of a new running track; construction of an on-campus visiting faulty residence; construction of a new fitness center; construction of a new athletic field and improvements to the irrigation system; construction of a new health center; improvements to the Lower School Dormitory; and construction of replacement dormitories (the "Project") and (b) certain costs of issuance of the Bonds. See "THE PROJECT" herein.

The proceeds of the Bonds, exclusive of underwriter's discount, will be deposited into the Project Fund and used to reimburse the School for its advances for Project costs, to pay other Project costs, and to pay costs related to the issuance of the Bonds. A description of the application of the proceeds of the Bonds is contained below under “ESTIMATED SOURCES AND USES OF FUNDS.”

## **ESTIMATED SOURCES AND USES OF FUNDS**

Proceeds from the sale of the Bonds will be used to acquire, construct, improve and equip the Projects, to pay capitalized interest during construction and to pay the costs of issuance of the Bonds.

### **Sources of Funds**

Principal Amount of Bonds	<u>\$20,000,000</u>
TOTAL	\$20,000,000

### **Uses of Funds**

Project Costs	\$19,729,000
Costs of Issuance and related costs*	\$ <u>271,000</u>
TOTAL	\$20,000,000

\*Includes underwriter's discount, legal fees, printing costs, rating agency fees, Liquidity Facility fees and first year's remarketing fee as well as general costs of issuance.

## SCHEDULE OF DEBT SERVICE REQUIREMENTS

Set forth below are the debt service requirements for the Bonds\*

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2005	\$	\$465,425.00	\$ 465,425.00
2006		752,550.00	752,550.00
2007		752,550.00	752,550.00
2008		752,550.00	752,550.00
2009	450,000.00	752,550.00	1,202,550.00
2010	465,000.00	735,236.25	1,200,236.25
2011	485,000.00	717,319.95	1,202,319.95
2012	505,000.00	698,689.24	1,203,689.24
2013	525,000.00	679,344.11	1,204,344.11
2014	545,000.00	659,246.44	1,204,246.44
2015	570,000.00	638,396.21	1,208,396.21
2016	590,000.00	616,681.58	1,206,681.58
2017	615,000.00	594,214.39	1,209,214.39
2018	640,000.00	570,844.65	1,210,844.65
2019	665,000.00	546,634.23	1,211,534.23
2020	695,000.00	521,321.25	1,216,321.25
2021	720,000.00	495,017.59	1,215,017.59
2022	750,000.00	467,811.38	1,217,811.38
2023	780,000.00	439,514.48	1,219,514.48
2024	815,000.00	410,126.89	1,225,126.89
2025	845,000.00	379,498.61	1,224,498.61
2026	880,000.00	347,779.65	1,227,779.65
2027	915,000.00	314,781.86	1,229,781.86
2028	955,000.00	280,543.39	1,235,543.39
2029	990,000.00	244,876.09	1,234,876.09
2030	1,030,000.00	207,929.96	1,237,929.96
2031	1,075,000.00	169,555.01	1,244,555.01
2032	1,120,000.00	129,563.10	1,249,563.10
2033	1,165,000.00	87,992.36	1,252,992.36
2034**	1,210,000.00	44,804.66	1,254,804.66

\* Assumed interest rate of 3% through June 30, 2005 and 3.763% thereafter, based on an assumed variable rate of 3% for Bonds not subject to an interest rate swap and 4.017% for Bonds subject to an interest rate swap. See "HEDGE AGREEMENT" herein.

\*\* Final maturity

The Debt Service Schedule set forth above is based on optional redemption requirements set forth in the Liquidity Facility. The School's failure to do so would, unless waived by the Bank, constitute a default under the Liquidity Facility, allowing the Bank, in its discretion, to accelerate the Bonds. Upon any renewal or replacement of the Liquidity Facility, a new or amended standby bond purchase agreement may require the School to continue to optionally redeem bonds upon a schedule agreed to by the School and the Bank. See "THE LIQUIDITY FACILITY AND THE BANK" and "BONDHOLDERS' RISKS" herein.

## THE BONDS

### General

The Bonds shall be dated the date of their delivery and shall mature on September 1, 2034. The Bonds shall be issued, and bear interest, in the Weekly Mode (as defined in Appendix C hereto). The Bonds shall remain in the Weekly Mode unless and until converted to the Fixed Rate Mode. The Bonds shall be issued in Authorized Denominations. The Bonds are being issued in the principal amount of \$20,000,000.

The Bonds in the Weekly Mode (except Liquidity Provider Bonds), shall bear interest at the Weekly Interest Rate determined in accordance with the Indenture from the date thereof or from the most recent date to which interest has been paid or provided for. Interest on Bonds bearing interest at a Weekly Interest Rate will be payable on the following dates (the “Interest Payment Dates”): (a) on the first Business Day of each month for an interest accrual period consisting generally of the preceding calendar month, with the first Interest Payment Date being January 3, 2005; and (b) at maturity or on redemption or mandatory tender dates.

The interest on the Bonds until they come due shall be payable on the Interest Payment Dates. Interest on overdue principal of any Bonds shall bear interest at the rate last established for that Bond before the principal became overdue until duly paid or provided for, or until the Bonds have been accelerated pursuant to the provisions of the Agreement, but unpaid interest shall not bear interest after its due date.

Payments of interest on the Bonds (other than any Bank Bond) shall be made to the registered Owners thereof (as determined at the close of business on the Record Date next preceding the related Interest Payment Date) by wire transfer (if requested of the Trustee in writing by an Owner of not less than \$1,000,000.00 in aggregate principal amount of Bonds not less than five days prior to the applicable Interest Payment Date) or by check or draft mailed to the address of each such Owner as it appears on the registration books of the Authority maintained by the Trustee, or to such other address as may be furnished in writing to the Trustee prior to the applicable Record Date by such registered Owner.

Payment of the principal of and redemption premium (if any) on the Bonds shall be made only upon presentation and surrender of such Bonds (other than any Bank Bond) on or after the maturity or redemption date, as appropriate, at the Office of the Trustee.

Payment of all amounts owing under any Bank Bond shall be made when due by wire transfer to such account as the Bank may designate in writing to the Trustee or in such other manner as may be specified in the Liquidity Facility; *provided, however, that* final payment of all amounts owing under any Bank Bond shall only be made upon presentation and surrender of such Bank Bond at the Office of the Trustee.

If any payment, redemption or maturity date for principal, premium or interest shall not be a Business Day, then the payment thereof may be made on the next succeeding Business Day with the same force and effect as if made on the specified payment date and no interest shall accrue for the period after the specified payment date.

## **Determination of Weekly Interest Rate; Notice and Binding Effect**

Determination of Weekly Interest Rate. The Weekly Interest Rate at which the Bonds are to bear interest during the Weekly Mode shall be the rate established by the Remarketing Agent no later than 2:00 p.m. (California time) on the Wednesday preceding such Weekly Interest Rate Accrual Period, or, if such day is not a Business Day, on the next preceding Business Day, as the rate of interest determined by the Remarketing Agent (on the basis of examination of obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. In no event shall the Weekly Rate exceed the Maximum Rate, which is defined in the Indenture to be the rate of ten percent (10%) per annum.

Notice of Interest Rates. The Remarketing Agent shall provide the School, the Bank and the Trustee with notice of each Weekly Interest Rate upon determination thereof by the Remarketing Agent.

Failure or Inability of Remarketing Agent to Determine Weekly Interest Rate. If for any reason the Weekly Interest Rate for a particular Weekly Mode is not determined by the Remarketing Agent as provided above, the Weekly Interest Rate for the next succeeding Weekly Interest Rate Accrual Period shall be the Weekly Interest Rate in effect for the immediately preceding Weekly Mode. If the Weekly Interest Rate cannot be determined for a second Weekly Interest Rate Accrual Period, or if the method of determining the interest rate(s) with respect to the Bonds shall be held to be unenforceable by a court of competent jurisdiction, the Bonds shall thereupon bear interest at the Alternate Rate in a Weekly Mode from the last date on which such rate was determined. The Alternate Rate is the lesser of the Maximum Rate or the Bond Market Association Municipal Swap Index rate as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or its successor, or as otherwise determined by the Bond Market Association or, if such index is no longer produced, then the rate of a reasonably comparable index selected by the Remarketing Agent.

Binding Effect of Determination and Computations. The determination of each Weekly Interest Rate in accordance with the terms of the Indenture shall be conclusive and binding upon the Owners of the Bonds, the Authority, the Tender Agent, the Liquidity Provider, the School and the Trustee.

## **Optional Tender; Purchase on Demand of Owner**

Any Bond shall be purchased on the demand of the Beneficial Owner (or, if the Bonds are not Book-Entry Bonds, the Owner) thereof, in an Authorized Denomination, on any Business Day at a purchase price equal to the principal amount thereof, plus accrued interest to the Optional Purchase Date (provided that accrued interest shall not be part of such purchase price if the Purchase Date is an Interest Payment Date), upon receipt by the Remarketing Agent and the Trustee on or before 9:00 a.m. (California time) on a Business Day at least 7 calendar days, but not more than 30 days, prior to the Optional Tender Date of telephonic notice (followed, if requested by the Remarketing Agent or the Trustee, by written or facsimile confirmation delivered to the Remarketing Agent and the Trustee no later than the close of business on the next succeeding Business Day) or written notice from the DTC Participant through whom such Beneficial Owner holds such Bonds (or, if the Bonds are not Book-Entry Bonds, the Owner)

stating (A) the principal amount of the Bond (or portion thereof) to be tendered, (B) the Bond number or other identification satisfactory to the Remarketing Agent and the Trustee, and (C) the Optional Tender Date on which such Bond will be tendered. If the Bonds are not Book-Entry Bonds, delivery of such Bond (with an appropriate instrument of transfer duly executed in blank) to the Tender Agent by 9:30 a.m. (California time) on such Optional Tender Date.

Upon receipt by the Remarketing Agent of a notice of optional tender for purchase, the Remarketing Agent shall give prompt written notice to the Tender Agent if the Bonds are not Book-Entry Bonds.

The foregoing provisions shall be of no force and effect, and the Owners of the Bonds shall have no right to tender Bonds for purchase in accordance therewith if the Liquidity Facility terminates or expires in accordance with its terms and is not replaced by an Alternate Liquidity Facility. **The Liquidity Facility is subject to automatic termination under certain circumstances without prior notice to Bond Owners.**

Notwithstanding any other provision of the Indenture, the Owner of a Bond may demand purchase of a portion of such Bond only if the portion to be purchased and the portion to be retained by the owner will be in Authorized Denominations.

### **Mandatory Tender**

The Bonds are subject to mandatory tender on the following dates (each a “Purchase Date”), at a purchase price equal to the principal amount thereof plus accrued and unpaid interest, if any, to the Purchase Date:

- (1) on the Fixed Rate Conversion Date, if any;
- (2) during a Weekly Mode, on the effective date of an Alternate Liquidity Facility the issuer of which has a long-term credit rating from Standard & Poor’s (“S&P”) which is lower than the then long-term credit rating of the Liquidity Provider of the Liquidity Facility in replacement for which such Alternate Liquidity Facility is being issued;
- (3) on any date within five (5) days after receipt by the Trustee of written notification from the Liquidity Provider that an event of default under the Liquidity Facility has occurred and is continuing, other than an event of default which causes an immediate termination of Liquidity Facility in accordance with its terms; and
- (4) on the date occurring two (2) Business Days prior to the Expiration Date, if the Liquidity Facility is not renewed or a notice of expected delivery of an Alternate Liquidity Facility is not delivered to the Trustee at least forty (40) days prior to the scheduled expiration of the Liquidity Facility or such Alternate Liquidity Facility is not actually delivered on a Business Day at least ten (10) days prior to such Expiration Date.

On each Purchase Date, the DTC Participant or Owner of such Bond shall tender each Bond owned by it for purchase, and such Bond shall be purchased or deemed purchased at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. Payment of the Purchase Price of such Bond shall be made by 1:30 p.m. (California time), in the same manner as payment of interest on the Bonds, to the DTC Participant with respect to Book-Entry Bonds (or the Owner of record if the Bonds are not Book-Entry Bonds), on the Record Date. If the Bonds are Book-Entry Bonds, the tendering DTC Participant shall transfer, on the registration books of DTC, the beneficial ownership interests in such Bonds to the account of the Trustee or a DTC Participant acting on behalf of the Trustee. If the Bonds are not Book-Entry Bonds, the Owner shall deliver such Bonds no later than 9:30 a.m. (California time) on the Purchase Date to the Tender Agent at its corporate trust office, accompanied by an instrument of transfer thereof, in form satisfactory to the Tender Agent.

The foregoing provisions shall be of no force and effect, and the Owners of the Bonds shall not be required to tender Bonds for purchase in accordance therewith if the Liquidity Facility terminates or expires in accordance with its terms and is not replaced by an Alternate Liquidity Facility.

### **Redemption Prior to Maturity**

No Scheduled Mandatory Redemption. The Bonds are not subject to mandatory sinking fund redemption prior to maturity.

Optional Redemption During Weekly Rate Mode. While the Bonds are in a Weekly Mode, or on the Fixed Rate Conversion Date, the Bonds are subject to redemption prior to maturity, at the option of School, as a whole or in part in Authorized Denominations on any Interest Payment Date at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date, without premium. While the Initial Liquidity Facility is in effect, the School is obligated to redeem the Bonds through these redemption provisions beginning on the first Business Day of each September, commencing with the first Business Day in September, 2009, in the principal amounts set forth in "SCHEDULE OF DEBT SERVICE REQUIREMENTS" herein. Any such redemption shall at a price equal to 100% of the principal amount to be redeemed plus unpaid interest accruing thereon through the date fixed for redemption.

Redemption During Fixed Rate Mode. Following the Fixed Rate Conversion Date, the Bonds will be subject to redemption prior to their respective stated maturities, as a whole or in part, in Authorized Denominations, on the redemption dates and at the redemption prices set forth in the Indenture (as the same may be amended, if at all, at the time of the Fixed Rate Conversion). Any such redemptions shall be paid from funds made available to the Trustee by the School under the terms of the Loan Agreement and shall not be paid from amounts drawn on the Liquidity Facility.

Notice of Redemption. Notice of redemption shall be given by the Trustee to (1) the respective Owners of the Bonds designate for redemption at their addresses appearing on the Bond registration books of the Trustee, with a copy to the Liquidity Provider; (2) the Information Services; and (3) the Securities Depositories. Each notice of redemption shall state the date of such notice, the redemption date, the redemption price (including any premium), the place or places of redemption, the CUSIP number (if any) of the maturities or maturities, and, if less than all the Bonds of any maturity are to be redeemed, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part

only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered to the Trustee.

Any notice of redemption shall be mailed by first-class mail, postage prepaid, to Bond Owners and the Liquidity provider not less than thirty (30) days (five (5) days in the event of non-delivery of an Alternate Liquidity Facility or the non-renewal of the Liquidity Facility) or more than sixty (60) days prior to the date fixed for redemption. Notices to the Information Services shall be mailed by the Trustee by certified, registered or overnight mail at the time of the mailing of notices to Bond Owners. Notices to the Securities Depositories shall be given by telecopy or by certified, registered or overnight mail at least one (1) Business Day before the mailing of notices to Bond Owners.

Notice of redemption of Bonds shall be given by the Trustee, at the expense of the School, for and on behalf of the Authority. The Trustee shall give notice to the Authority of any schedule redemption of the Bonds.

Failure of the Trustee to give the notice as provided herein, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption.

The Authority has the right to rescind any redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. The Authority and the Trustee will have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

### **Partial Redemption of Bonds; Selection of Bonds for Redemption**

If less than all the Bonds are to be redeemed, the particular Bonds to be redeemed are required to be selected prior to the redemption date by lot, in such manner as the Trustee in its discretion may determine, *provided, however, that* Liquidity Provider Bonds must be selected for redemption before any other Bonds are selected for redemption, followed by any Bonds which have been tendered for purchase on the date fixed for redemption (if the Trustee shall have received notice of such tender prior to the selection of Bonds for redemption). The Trustee may provide for the selection for redemption of portions of the principal of Bonds only in Authorized Denominations.

### **Registration, Transfer and Exchange**

The Trustee will cause to be kept at its Office a bond register in which, subject to such reasonable regulations as it may prescribe, the Trustee will provide for the registration, transfer and exchange of Bonds as provided in the Indenture.

Subject to the Book-Entry-Only System described below, Bonds may be transferred or exchanged only upon the bond register maintained by the Trustee as provided in the Indenture. Upon surrender for transfer or exchange of any Bond at the designated corporate trust office or other designated payment office of the Trustee, the Authority will execute, and the Trustee will authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same series and maturity, of any Authorized Denomination and of a like aggregate principal amount.

Every Bond presented or surrendered for transfer or exchange will (if so required by the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Trustee, duly executed by the owner thereof or his attorney or legal representative duly authorized in writing.

All Bonds issued upon any transfer or exchange of Bonds will be the valid obligations of the Authority, evidencing the same debt, and entitled to the same security and benefits under the Indenture, as the Bonds surrendered upon such transfer or exchange.

No service charge will be made for any registration, transfer or exchange of Bonds, but the Trustee or Securities Depository may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, and such charge will be paid before any such new Bond will be delivered. The fees and charges of the Trustee for making any transfer or exchange and the expense of any bond printing necessary to effect any such transfer or exchange will be paid by the School. In the event any registered owner fails to provide a correct taxpayer identification number to the Trustee, the Trustee may impose a charge against such registered owner sufficient to pay any governmental charge required to be paid as a result of such failure. In compliance with Section 3406 of the Internal Revenue Code, such amount may be deducted by the Trustee from amounts otherwise payable to such registered owner under the Indenture or under the Bonds.

The Trustee will not be required (i) to transfer or exchange any Bond during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of such Bond and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bond so selected for redemption in whole or in part, during a period beginning at the opening of business on any Record Date for such Bonds and ending at the close of business on the relevant Interest Payment Date therefor.

The person in whose name any Bond is registered on the bond register will be deemed and regarded as the absolute owner thereof for all purposes, except as otherwise provided in the Indenture, and payment of or on account of the principal of and premium, if any, and interest on any such Bond will be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as herein provided. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

The Trustee will keep on file at its designated Office a list of the names and addresses of the last known owners of all Bonds and the serial numbers of such Bonds held by each of such owners. At reasonable times and under reasonable regulations established by the Trustee, the list may be inspected and copied by the Authority, the School, or the owners of 10% in principal amount of Bonds Outstanding or the authorized representative thereof, provided that the ownership of such owner and the authority of any such designated representative will be evidenced to the satisfaction of the Trustee.

### **Security for the Bonds**

The Bonds are special obligations of the Authority payable solely from and secured by certain Revenues pledged under the Indenture, consisting primarily of Loan Payments made by the School under the Loan Agreement and certain other funds as provided in the Indenture. The School's payment obligations under the Loan Agreement are unsecured, general obligations of the School. The Loan Agreement contains certain covenants for the protection of the Authority and the Bondholders. See "Appendix C – SUMMARY OF PRINCIPAL BOND DOCUMENTS" herein.

On the date of issuance of the Bonds, the School expects to cause the delivery of a Standby Bond Purchase Agreement, dated December 1, 2004 (the "Liquidity Facility"), by and between the School and KeyBank National Association (the "Bank" or "Initial Liquidity Provider"), to the Trustee to provide an additional source of funds for the payment of the purchase price of any Bonds that are subject to optional or mandatory tender for purchase pursuant to the Indenture. For information concerning the Initial Liquidity Provider, see Appendix E hereto.

**NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY MONEYS OR ASSETS OF THE AUTHORITY (OTHER THAN LOAN PAYMENTS AND CERTAIN MONEYS HELD UNDER THE INDENTURE) OR ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF THE PRINCIPAL, PREMIUM (IF ANY), OR INTEREST PAYABLE WITH RESPECT TO THE BONDS. THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, ABAG, THE MEMBERS OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE, OTHER THAN THE AUTHORITY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE FAITH AND CREDIT OF NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY, ABAG, AND THE MEMBERS OF THE AUTHORITY AND ABAG) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM (IF ANY) OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.**

In order to secure the payment of all amounts owing under and with respect to the Bonds and the payment and performance by the School of all of its obligations with respect to the Bonds, the Loan Agreement and the Liquidity Facility, under the Indenture the Authority pledges all of the Revenues, and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established under the Indenture (other than the Rebate Fund or remarketing proceeds or the proceeds of draws under the Liquidity Facility to pay the Purchase Price of Bonds). Such pledge constitutes a lien on, and security interest in, such assets.

In addition, under the Indenture the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, and to the Liquidity Provider, in addition to the Revenues and other amounts described in the immediately preceding paragraph, all of the right, title and interest of the Authority in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any Administrative Fees and Expenses payable to the Authority, the right of the Authority to receive any indemnification and the right to receive any notices and reports).

The Liquidity Facility. The Liquidity Facility is the primary liquidity afforded the Bondholders for purchase of the Bonds in addition to the School's general obligation.

The Loan Agreement. The Loan Agreement requires that the School make Loan Payments to the Trustee for deposit into the Revenue Fund in amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds when due and to make certain other payments. The School will receive credits against amounts due as Loan Payments for certain amounts available from other sources including certain earnings on funds held by the Trustee.

The Loan Payments and other amounts payable to the Authority under the Loan Agreement (except for any deposits to the Rebate Fund and the right to receive certain administrative fees and expenses payable to the Authority) are pledged under the Indenture for the payment of principal, redemption premium, if any, and interest on the Bonds, and the rights of the Authority in and to such payments (except for any deposits to the Rebate Fund and the right to receive any Administrative Fees and Expenses payable to the Authority) are assigned to the Trustee, to secure payments on the Bonds and the School's obligations under the Liquidity Facility. The School agrees to make Loan Payments under the Loan Agreement directly to the Trustee. The Loan Payments and other amounts payable by the School under the Loan Agreement are absolute and unconditional and the School is not entitled to any abatement or diminution thereof.

The School's obligations under the Loan Agreement are general obligations of the School, and the full faith and credit of the School is pledged to the payment of all sums due and payable by the School under the Loan Agreement. While the Loan Agreement is a general obligation of the School, it is an unsecured general obligation. There are no limitations on the School's use or investment of its endowment funds or other property that are designed for the protection of the Bondholders. In addition, the School is not subject to limitation or restriction regarding its ability to incur additional debt or encumber its property under the Loan Agreement. Upon any defaults by the School on its obligations under the Loan Agreement, the Bondholders would (except to the extent of Bond proceeds and investment income therefrom or other assets, if any, held as part of the security by the Trustee and the obligations of the Liquidity Provider under the Liquidity Facility) be unsecured creditors.

The Loan Agreement requires the School to provide a Liquidity Facility for any of the Bonds that are subject to optional or mandatory tender for purchase in order to provide a source of payment, in addition to funds of the School, of the purchase price of Bonds that may be subject to optional or mandatory tender under the Indenture. The School may provide self-liquidity, in lieu of a Liquidity Facility so long as (A) any Bonds that are subject to tender for purchase, but that are not to be secured by a Liquidity Facility, have been mandatorily tendered for purchase at or prior to the conversion of such Bonds to Bonds without a Liquidity Facility, and have been remarketed, with appropriate disclosure, as Bonds without a Liquidity Facility; and (B) such Bonds have been rated at the time of such remarketing on the basis of the absence of a separate Liquidity Facility. If the Bonds are converted to the Fixed Rate Mode, no Liquidity Facility is required after conversion and successful remarketing of the Bonds to the Fixed Interest Rate.

The School has the option, with the prior written consent of the Liquidity Provider given in accordance with the Liquidity Facility, at any time prior to the expiration of the Liquidity Facility, with at least forty (40) days prior written notice to the Trustee, each Rating Agency, the Remarketing Agent and the Authority, (A) to cause the termination of any Liquidity Facility then in effect; (B) to allow any Liquidity Facility then in effect to expire or lapse; or (C) to cause the delivery to the Trustee of a substitute or alternative or additional Liquidity Facility upon such terms and conditions as may be directed by the School. The Trustee shall mail notice of any termination, extension, expiration, lapse or substitution of the Liquidity Facility to the Bond Owners not less than fifteen (15) days prior to the effectiveness thereof.

See Appendix C for a further description of certain terms and provisions of the Loan Agreement.

## **BOOK-ENTRY-ONLY SYSTEM**

The information provided immediately below concerning DTC and the Book-Entry-Only System, as it currently exists, has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters, the Authority or the School.

DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is, in turn, to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, the Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the School, on payment dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the School, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the School, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the School. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The use of the system of book-entry transfers through DTC (or a successor securities depository) may be discontinued as described in the Indenture. In that event, the Bonds will be printed and delivered.

None of the Authority, the Trustee nor the School will have any responsibility or obligations to any Direct Participants or Indirect Participants or the persons for whom they act with respect to (i) the accuracy of any records maintained by DTC or any such Direct Participant or Indirect Participant; (ii) the payment by any Participant of any amount due to the Beneficial Owner in respect of the principal of , premium, if any, or interest on the Bonds; (iii) the delivery by any such Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Indenture to be given to owners of the Bonds; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

## **THE LIQUIDITY FACILITY AND THE BANK**

### **The Liquidity Facility**

On the date of issuance of the Bonds, the School expects to cause the delivery of a Standby Bond Purchase Agreement, dated December 1, 2004 (the “Initial Liquidity Facility”), by and between the School and KeyBank National Association (the “Initial Liquidity Provider”), to the Bond Trustee to provide an additional source of funds for the payment of the purchase price of any Bonds that are subject to optional or mandatory tender for purchase pursuant to the Indenture. For information concerning the Initial Liquidity Provider, see Appendix E hereto.

The School may, under certain circumstances (i) cause the termination of any Liquidity Facility then in effect; (ii) allow the expiration or lapse of any Liquidity Facility then in effect; or (iii) cause the delivery to the Bond Trustee of a substitute or alternative or additional Liquidity Facility upon such terms and conditions as may be directed by the School. The School also may provide self-liquidity under certain circumstances. See “THE BONDS—Security for the Bonds—The Loan Agreement” herein.

Subject to the School’s right to terminate, replace or to extend the Initial Liquidity Facility, the Initial Liquidity Facility shall expire on December 1, 2009 (the “Stated Expiration Date”). In addition, the Initial Liquidity Facility may also be terminated prior to its stated expiry upon the occurrence of certain events and in accordance with its terms and provisions. See Appendix F - “SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY FACILITY.”

**The obligations of the Initial Liquidity Provider under the Initial Liquidity Facility may be automatically terminated or suspended without notice to the Trustee or the Bond Owners in certain circumstances as specified in the Initial Liquidity Facility, and upon such automatic termination or suspension the Bonds will cease to be subject to the optional and mandatory tender provisions described above.**

### **Termination of the Liquidity Facility**

The Liquidity Facility shall expire not later than 4:00 p.m. (Pacific time) on the earliest to occur of the following dates: (a) the Stated Expiration Date; (b) the date of termination of the Bank's obligation to purchase Bonds under the Liquidity Facility in accordance with its terms; or (c) the date which is one Business Day following the date on which all of the Bonds (other than Bank Bonds) bear interest at the Fixed Rate.

See Appendix F - "SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY FACILITY."

### **Liquidity Facility Covenants**

The Liquidity Facility between the School and the Bank contains numerous provisions, including certain covenants and other restrictions which bind the School so long as the Liquidity Facility is in effect. A default under the Liquidity Facility can lead to an acceleration of the Bonds. Reference is made to the full Liquidity Facility for all such provisions. Among other provisions, the Liquidity Facility requires the School to optionally redeem Bonds beginning on the first Business Day of September, 2009. The School's failure to do so would, unless waived by the Bank, constitute a default under the Liquidity Facility, allowing the Bank, in its discretion, to accelerate the Bonds. Upon any renewal or replacement of the Liquidity Facility, a new or amended standby bond purchase agreement may require the School to continue to optionally redeem bonds upon a schedule agreed to by the School and the Bank. See "BONDHOLDERS' RISKS" herein. A summary of certain provisions of the Liquidity Facility is contained in Appendix F hereto.

### **The Bank**

See Appendix E - "CERTAIN INFORMATION CONCERNING KEYBANK NATIONAL ASSOCIATION" for a summary description and certain financial information of the Initial Liquidity Provider.

## **INTEREST RATE SWAP AGREEMENT**

The School has entered into an Interest Rate Swap Agreement with Merrill Lynch Capital Services, Inc. ("MLCS") dated as of May 26, 2004, which will result in the School paying a fixed rate of interest to MLCS and receiving a variable rate of interest payment from MLCS. The Interest Rate Swap Agreement is in the notional amount of \$15,000,000. The Swap Agreement is effective from July 1, 2005 until the maturity of the Bonds on September 1, 2034. Pursuant to the Interest Rate Swap Agreement, the School will receive a variable rate equal to 67% of LIBOR. Pursuant to the Interest Rate Swap Agreement, the School will pay a fixed rate of 4.017% per annum through the maturity of the Bonds. Such transaction does not affect the obligation of the School to pay interest on the Bonds at the rates and in the manner described herein, and neither the Trustee nor the Bond Owners have any claim to or interest in payments made to the School by MLCS under the Interest Rate Swap Agreement.

## **BONDHOLDERS' RISKS**

The discussion herein of risks that could affect payments to be made by the School with respect to the Bonds is not intended to be comprehensive or definitive, but rather is to summarize certain matters which could affect the ability of the School to make such payments.

### **Inability to Extend, Renew or Replace the Liquidity Facility**

The Liquidity Facility is scheduled to expire on December 1, 2009, or earlier upon the occurrence of certain events described therein. No assurances can be given that the School will be able to obtain an extension or renewal of the Liquidity Facility to secure the principal of and interest on the Bonds. Failure to obtain a renewal or extension of the Liquidity Facility or to obtain an Alternate Liquidity Facility with a rating equal to or higher than the then-current rating on the Bonds will result in a mandatory tender of the Bonds prior to maturity. See "THE BONDS—Mandatory Purchase of Bonds" in this Official Statement.

### **Redemption or Purchase Prior to Maturity; Bank's Right to Accelerate**

In considering whether the Bonds might be redeemed or purchased prior to maturity, Owners should consider the information included in this Official Statement under the heading "THE BONDS—Redemption Prior to Maturity". In addition to optional redemptions at the direction of the School, the Bonds may be called for redemption prior to maturity should certain Events of Default occur under the Loan Agreement, the Indenture, the Liquidity Facility or under certain other circumstances described therein. As provided in the Liquidity Facility and the Indenture, under certain circumstances, the Liquidity Provider has the right, in its sole discretion, to require that the Bonds be accelerated. The Liquidity Facility requires the School to optionally redeem Bonds beginning on the first Business Day of September, 2009 assuming the Liquidity Facility has been extended through that date. The School's failure to do so would, unless waived by the Bank, constitute a default under the Liquidity Facility, allowing the Bank, in its discretion, to accelerate the Bonds. Upon any renewal or replacement of the Liquidity Facility, a new or amended Liquidity Facility may require the School to continue to optionally redeem bonds upon a schedule agreed to by the School and the Bank. See "THE LIQUIDITY FACILITY AND THE BANK" herein. The effect on Owners of such an acceleration would be similar to that of early redemption at par. See Appendices C and F to this Official Statement.

### **Risks Related to the Liquidity Facility**

The primary source of liquidity for the Bonds – in addition to the general obligation of the School – is the Liquidity Facility delivered by the Liquidity Provider. Reference is hereby made to Appendix E hereto, which contains information about the Liquidity Provider. It is possible, in the event of the insolvency of the Liquidity Provider or the occurrence of some other event precluding the Liquidity Provider from honoring the Liquidity Provider's obligation to make payments as stated in the Liquidity Facility, that the financial resources of the School will be the only source of liquidity on the Bonds. There can be no assurance that the financial resources of the School would be sufficient to pay the principal, purchase price, premium, if any, and interest on the Bonds in the event the Trustee was forced to seek recourse against the School. **In addition, the Liquidity Facility is subject to automatic termination under certain circumstances without prior notice to Bond Owners.**

## **Potential Environmental Risks**

There are potential risks relating to environmental liability associated with the ownership of any property. If hazardous substances are found on property, owners and operators of such property may be held liable for costs of cleanup and other liabilities relating to such hazardous substances.

## **Seismic Risks**

The Project is located in a seismically active region of California. The Project has been designed to meet all applicable seismic standards. However, the occurrence of severe seismic activity in the area could result in substantial damage to the Project. The Loan Agreement does not require earthquake insurance on any property of the School.

## **Covenant to Maintain Tax-Exempt Status of Interest on the Bonds**

The tax-exempt status of the interest on the Bonds, as described under the caption “TAX MATTERS” in this Official Statement, is based on the continued compliance by the Authority and the School with certain covenants contained in the Indenture, the Loan Agreement and certain other tax compliance documents and in the required reporting of certain information to the United States Treasury. These covenants relate generally to arbitrage limitations, rebate of certain excess investment earnings to the federal government, restrictions on the amount of issuance costs which can be financed with the proceeds of the Bonds, requirements regarding the timely and proper use of proceeds of the Bonds and maintenance of the School’s status as an organization described in Section 501(c)(3) of the Code. Failure to comply with any of these covenants may result in the treatment of interest on the Bonds as taxable retroactive to the date of issuance.

## **Other Tax-Related Factors**

***Dependence Upon Tax-Exempt Status.*** The School is generally not subject to corporate income taxes, and assets of the School are generally not subject to property taxes. This treatment affects the revenues available to the School to meet its financial obligations, including the payment of principal and purchase price of and interest on the Bonds.

By virtue of a letter from the Internal Revenue Service, the School has been determined to be an exempt organization as described in Section 501(c)(3) of the Code, and is not classified as a “private foundation.” To maintain its tax-exempt status and to avoid treatment as a private foundation, the School is subject to a number of requirements affecting its operations. In a series of recent actions, the Internal Revenue Service has stepped up its audit and scrutiny of 501(c)(3) organizations in general and their use of tax-exempt financing in particular. A possible modification or repeal of certain existing federal income tax laws, the change in Internal Revenue Service policies, the change of the method of operations, purposes or character of the School, or other factors could result in a loss by the School of its status of an exempt organization under Section 501(c)(3) of the Code.

***Changes in Law.*** Various factors could affect individuals’ contributions to organizations such as the School in the future. For example, changes in marginal income tax rates or conversion to a flat tax could reduce or eliminate the tax advantages of charitable contributions for many taxpayers. Donations of stock and other appreciated property may result in tax liability under the Code’s alternative minimum tax provisions, thereby discouraging contributions of such property. In addition, taxpayers who do not itemize deductions are not able to deduct charitable contributions. Such factors may adversely affect contributions to organizations such as the School.

***Tax Exemption for Nonprofit Corporations.*** The tax-exempt status of nonprofit corporations and the exclusion of income earned by them from taxation has been the subject of review by various federal, state and local legislative, regulatory and judicial bodies. This review has included proposals to broaden and strengthen existing federal tax law with respect to the taxation of unrelated business income of nonprofit corporations such as the School.

#### **General; Certain Other Risks**

***Factors Generally Affecting Private Schools.*** The following factors, which are not all-inclusive, may adversely affect the operations of private secondary schools in the future, including the operations of the School, to an extent that cannot be determined at this time.

1. The reduced demand for independent school education or other services arising from a change in demographics, or a decline in the economic conditions of the areas from which the School draws a significant portion of its enrollment.
2. Cost increases without corresponding increases in revenue could result from, among other factors, increases in the salaries, wages, and fringe benefits of teachers, staff and administrative employees and inflation.
3. Future legislation and regulations affecting independent or public schools, their tax-exempt status, financial aid and scholarships in general could adversely affect the operations of the School.
4. Competition from other independent or public schools located throughout the recruitment area of the School or from alternative or substitute educational programs, may decrease enrollment at the School.
5. The Internal Revenue Code of 1986, as amended, places certain limitations on the ability of educational corporations to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the School.

***Miscellaneous.*** The School may be impacted by the cost and the limited availability and sufficiency of insurance for risks such as property damage and general liability.

***Enforceability.*** The enforcement of the Bonds and supporting documents may be limited. The enforceability of the School's obligations under the Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or by equitable principles affecting the enforcement of creditors' rights generally.

### **ABSENCE OF MATERIAL LITIGATION**

#### **The Authority**

To the knowledge of the Authority, there is not pending (with process having been served) or threatened against the Authority, any litigation which seeks to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the validity of the Bonds or the proceedings or authority under which the Bonds are to be issued, or which in any manner questions the right of the Authority to enter into the Indenture or the Loan Agreement or to secure the Bonds in the manner provided in the Indenture and the Act.

## **The School**

There is no litigation, proceedings or investigation pending or, to the knowledge of the corporate officers of the School, threatened against the School, except litigation involving claims the probable recoveries in which and the estimated costs and expenses of defense of which, (i) will be entirely within the School's applicable insurance policy limits (subject to applicable deductibles) or are not in excess of the total of the available reserves held under the School's applicable self-insurance program, or (ii) if adversely determined, will not materially affect the School's ability to perform its obligations relating to the Bonds, the Indenture or the Loan Agreement, including the School's payment obligations under the Loan Agreement.

In addition, no litigation, proceedings or investigations are pending or, to the knowledge of the corporate officers of the School, threatened against the School seeking to restrain, enjoin or in any way limit the approval or issuance and delivery of the Indenture, the Bonds, the Loan Agreement, the Liquidity Facility or any other required documents by the Authority or the School, or which would in any manner challenge or adversely affect the corporate existence or powers of the School to enter into and carry out the transactions described in or contemplated by or the execution, delivery, validity or performance by the School of the terms and provisions of the Bonds, the Indenture, the Loan Agreement, the Liquidity Facility or any other required documents.

## **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Jones Hall, a Professional Law Corporation, Bond Counsel. The form of that opinion is attached as Appendix D hereto. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, for the School by Nordman, Cormany, Hair & Compton, for the Bank by Holme, Roberts & Owen LLP and for the Underwriter by Sheehan Phinney Bass + Green, P.A.

The various legal opinions to be delivered concurrently with the delivery of the Bonds, including Bond Counsel's opinion regarding the tax-exempt status of the Bonds, express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Jones Hall, a Professional Law Corporation, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion,

Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the School and others in connection with the Bonds, and Bond Counsel has assumed compliance by the Authority and the School with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code. The opinion of Bond Counsel relies, in part, on the opinion of counsel to the School regarding the status of the School as an exempt organization under Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Bonds is exempt from present State of California personal income taxes.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

### **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government.

Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Corporation have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds or that an audit initiated by the Internal Revenue Service involving other tax-exempt bonds will not have an adverse effect on the market price of the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

## **RATINGS**

The Bonds are rated “AA-/A-1” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), with the understanding that upon delivery of the Bonds, the Liquidity Facility will be issued by the Bank. Explanations of the significance of such rating may be obtained from S&P. Such rating expresses only the views of the particular rating agency. There is no assurance that any such rating will continue for any period of time or that the rating will not be revised or withdrawn. Any such revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **FINANCIAL STATEMENTS**

The financial statements of the School as of June 30, 2004 and 2003 and for the years then ended, included in Appendix B hereto, have been audited by Jacobs & Jacobs, independent accountants, as stated in their report appearing in Appendix B to this Official Statement.

## **THE TRUSTEE**

The Bank of New York Trust Company, N.A. will serve as Trustee and Tender Agent for the Bonds. The designated corporate trust office of the Trustee is presently located at: 700 South Flower Street, Suite 500, Los Angeles, California 90014.

## **REMARKETING AGENT**

The initial Remarketing Agent shall be George K. Baum & Company (“GKBC”). The Remarketing Agent will set the interest rates on the Bonds and perform the other duties and remarket Bonds as provided for in the Indenture, subject to the provisions of any remarketing agreement. The Remarketing Agent may resign, or may be removed by the Authority upon the request of the School upon the conditions set forth in the Remarketing Agreement.

The Remarketing Agent may for its own account or as broker or agent for others deal in Bonds and may do anything any other Bondowner may do to the same extent as if the Remarketing Agent were not serving as such. The Remarketing Agreement provides that the School will indemnify the Remarketing Agent against certain liabilities, including certain liabilities under applicable securities laws.

GKBC is a registered broker-dealer and a member of the National Association of Securities Dealers, Inc. GKBC is a separate and distinct legal entity from its parent and other affiliates, and is solely responsible for its obligations and commitments.

GKBC and its affiliates, and their respective directors, officers, employees, and agents, may underwrite, privately place, have positions in, effect transactions in, and purchase from or sell to an affiliate securities (or futures, options, or derivatives related thereto) of companies with respect to which GKBC provides brokerage, advisory, or other services to its customers, and may also perform investment banking, credit extension, and other services for these companies.

Investments offered, sold or introduced by GKBC are not FDIC insured, are not deposits or other obligations of, and are not guaranteed by, GKBC or any affiliate, and involve risk, including possible loss of principal.

## **UNDERWRITING**

The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$19,882,000 (which represents the principal amount of the Bonds less an Underwriter's discount of \$118,000). The Underwriter will be obligated to accept delivery and pay for all of the Bonds if any are delivered. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price reflected on the front cover hereof.

## **NO CONTINUING DISCLOSURE UNDERTAKING**

The financial reporting and material events notice requirement set forth in SEC Rule 15c2-12(b)(5) do not apply to the offering of the Bonds because of the exceptions provided by paragraphs (d)(1)(i) and (d)(1)(iii) of such rule.

## **MISCELLANEOUS**

The references herein to the Indenture, the Loan Agreement and the Liquidity Facility are brief outlines of certain provisions thereof. Such outlines do not purport to be complete; for full and complete statements of such provisions, reference is made to the Indenture, the Loan Agreement and the Liquidity Facility.

The agreement of the Authority with the owners of the Bonds is fully set forth in the Indenture, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. Statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact. Copies of the documents mentioned under this heading will be on file at the office of the Trustee following delivery of the Bonds.

The School has supplied and reviewed the information contained herein, except for the information relating to the Authority, DTC and the Bank, and has approved all such information for use within this Official Statement.

The attached Appendices are integral parts of this Official Statement and should be read in their entirety together with all the foregoing statements herein. Appendices A and B have been provided by the School. Appendices C and D have been provided by Bond Counsel. Appendix E has been provided by the Bank. Appendix F has been provided by counsel to the Bank.

## **EXECUTION AND DELIVERY**

The execution and delivery of this Official Statement have been duly authorized by the Authority and the School.

### **ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS**

By: /s/ Joseph K. Chan  
Chief Financial Officer

### **THE THACHER SCHOOL**

By: /s/ Justin M. Faggioli  
President, Board of Trustees

## **APPENDIX A**

### **The Thacher School General Information**

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**ABAG Finance Authority for Nonprofit Corporations  
2004 Variable Rate Demand Revenue Bonds  
(The Thatcher School)**

**APPENDIX A**

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December 3, 2004

The information contained herein with respect to The Thacher School (the “School” or “Thacher”) and the Project, as defined herein is for inclusion in the Official Statement relating to the ABAG Finance Authority for Nonprofit Corporations 2004 Variable Rate Demand Revenue Bonds (The Thacher School) (the “Series 2004 Bonds” or the “Bonds”). Any capitalized term, unless otherwise defined in this Appendix A, shall have the meaning set forth in the Indenture of Trust dated as of December 1, 2004, among the Authority and The Bank of New York Trust Company, N.A., as Trustee (the “Agreement”). The School is a California non-profit corporation and is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986. Unless otherwise indicated, all cities and towns referred to herein are located in California. All references to years herein refer to fiscal year ended June 30 unless otherwise specified. All references to “Endowment” herein shall mean donor restricted as well as board designated funds. All references to “Pledges” herein shall mean written and verbal.

## INTRODUCTION

Founded in 1889, The Thacher School is a coeducational boarding secondary school located 85 miles north of Los Angeles, California. The School serves academically talented students who will benefit from a rigorous college preparatory experience. The faculty and students live and work closely together in a community in which cooperation, trust, honesty, and respect are the cornerstones of school life. Thacher’s blend of rigorous academics and outdoor life is distinctive and distinguished among boarding schools. Emphasis on carefully calibrated challenges to develop the full potential of students pushes the boundaries of their capabilities. The School is committed to the belief that demands in the academic classroom, when combined with those of mountains and horses, of sports and the arts produce independent minds, strong bodies, and powerful character.

The School’s Board of Trustees, administration and faculty believe the following characteristics define the School:

Strength of Academic Program. Thacher’s rigorous and traditional curriculum builds a foundation for lifelong learning in its students. The academic program includes 16 Advance Placement (“AP”) courses, opportunities to study abroad or at other programs in the United States, and an independent research project for seniors. The student-faculty ratio is 5:1; the average class size is eleven. Typically, ninety percent of each year’s seniors gain admission to one of their top three college choices. The School was named an Exemplary School by the United States Department of Education in 1991.

Development of Student Character. Ideals such as honesty, respect and sportsmanship are valued at Thacher on par with academic excellence and intellectual pursuits. The School is built on the cornerstone values of hard work, resourcefulness, integrity and concern for others. A focus on outdoor education, including regular camping and riding, teaches lessons that complement those learned in the classroom. Over 75% of the student body participates in the Community Service Program, and the School’s Honor Code is an integral part of Thacher’s community life. The School’s mission includes the goal of preparing students for “lives of leadership and service.”

Demand for Thacher Education. Admission to Thacher is extremely competitive. Applications have increased by 7% since 2000. The School accepted only 28% of applicants in 2004-05, comparable to the Moody’s median for AAA-rated schools of 27%. Approximately 70% of students accepted over the past five years have chosen to attend the School, well above the 2004 NAIS boarding school average of 57%. SAT scores for Thacher students have averaged 127% of the national mean over the past five years.

Financial Strength. Thacher’s Net Assets totaled \$94.9 million in fiscal year 2004, over \$55.9 million of which was unrestricted. Philanthropic giving to the School was over \$7.4 million in the 2004 fiscal year. The School is currently at the midpoint (in time) of a \$70 million capital campaign;

## Appendix A

as of August 31, 2004, the School had already received over \$54.8 million in gifts and pledges, including a single \$10 million gift. The primary goal of the campaign is endowment growth to further improve the financial strength of the School while funding faculty salaries and financial aid.

### HISTORY

The Thacher School was founded by Sherman Thacher in 1889 when a New England friend asked Mr. Thacher to tutor his son for admission to Yale. The School was initially an all-boys boarding school. In the early years the School was very small; enrollment in 1905 was 42. A chronology of key events in the School's history follows:

- 1904 The first Gymkhana is held.
- 1906 The Harvard-Thacher Club is founded in Cambridge.
- 1924 Thacher incorporates.
- 1939 The Sherman Day Thacher Memorial Fund is established to support scholarships.
- 1967 Thacher obtains a lease for the Golden Trout Camp, 250 acres at 10,140 ft in the High Sierra.
- 1970 The Headmaster's House, campus swimming pool, and gym are built.
- 1978 Thacher becomes co-educational.
- 1987 Thacher, Taft, Deerfield, Andover, and the Chewonki Foundation in Wiscasset, Maine found the Maine Coast Semester.
- 1989 Thacher completes its \$17,000,000 Centennial Campaign and builds an addition to the Library and an amphitheater.
- 1991 Thacher is designated an Exemplary School by the Blue-Ribbon School Program of the U.S. Department of Education.
- 1996 Thacher receives funding from the W.M. Keck Foundation to support the Summer Technology Institute, a program designed to help high school teachers improve their use of technology in the classroom.
- 1998 Thacher receives its first million dollar gift and the Teach the Teachers program begins.
- 1999 A complete replacement of the campus infrastructure is completed.
- 2001 U S News features Thacher in its "Special Report: Outstanding Boarding Schools."
- 2002 Thacher receives its first five million dollar gift.
- 2004 Thacher receives its first ten million dollar gift.

### MISSION, PHILOSOPHY AND VISION

The Mission of the School today remains essentially unchanged from its beginning over one hundred years ago. While hewing to its traditional task of preparing students for admission to college and equipping them with the contemporary knowledge and tools for a successful course of higher education, Thacher continues to train young men and women in the art of living for their own greatest good and for the greatest good of their fellow citizens in the increasingly diverse society of a complex nation and ever-changing world.

To these ends, a scholarly and able faculty encourages and expects excellence of students in the School's classrooms, laboratories, and studios; a lifelong love of truth and learning; exemplary levels of performance and sportsmanship on the playing fields and courts; high standards of conduct in all relationships and activities; and civil courtesy throughout the School's daily round. The School's extraordinary location and traditional family environment continue to promote the virtues of personal growth and self-reliance tempered by an increasing awareness of the needs of others and a shared responsibility for a healthy and happy community.

The philosophy of the School is rooted in the wisdom and work of its founder, Sherman Day Thacher, who, from the School's beginnings in 1889, sought above all else to train his students in the art of living for their own greatest good and for the greatest good of their fellow citizens. To this end, and given the extraordinary natural setting of his School, he believed the best education for those within his charge was one combining a challenging academic life with rugged outdoor activities. An emphasis upon personal growth, self-reliance, and integrity was balanced by the development of concern for others and a responsible community life. Study assignments and classroom recitations were augmented by the lessons learned from one's horse and its care, regular chores around the School, teamwork on its playing fields, the normal give and take of everyday life with schoolmates and teachers, and the shared high adventure in and beyond the surrounding mountains. Formal preparation for college admission and higher education was enriched by the encouragement of personal habits of scholarship and a lifelong interest in learning.

Generations of alumni bear witness to the virtues of Sherman Day Thacher's educational philosophy, and the School has established a firm foundation for meeting the expectations of future student generations. The School still sustains its cherished traditions of horsemanship and camping, while its able faculty and exceptional facilities support a demanding contemporary curriculum and a wide-ranging athletic program. Modern technology enlarges and enriches possibilities for new learning, while the historic disciplines of the humanities, mathematics, and the natural and physical sciences are continually enhanced. Innovative as well as classical pedagogical techniques inspire strong programs in the creative and performing arts. The student body learns how to maintain a just and productive society on the basis of the very values Sherman Day Thacher did his best to instill in every student, the values saluted in Thacher's traditional 'Banquet Song,' "honor, and fairness, and kindness, and truth."

Thacher's commitment to the intellectual life and personal development of its students manifests itself in a clear understanding of its vision for its graduates:

"Each Thacher graduate will be able to  
 master a traditional core curriculum;  
 think creatively, analytically, and logically;  
 communicate effectively by listening, speaking, and writing well;  
 work individually and collaboratively;  
 live a productive, caring, and healthy life.

Each Thacher graduate will value and appreciate  
 excellence;  
 doing one's best in all endeavors;  
 challenging one's limits while risking failure;  
 intellectual life and knowledge of the true, the good, and the beautiful;  
 the sanctity of the natural world;  
 community life based upon kindness, fairness, honesty, and truth;  
 good sportsmanship and fair play;  
 the traditions of the School, the life-long support of the extended Thacher community, and the responsibilities that accompany a privileged education."

## CURRICULUM

### Academics

Academic excellence is the core of Thacher's program. The rigorous and traditional curriculum is comprised of 75 different courses including required courses, elective courses, honors-level classes, and 16 Advanced Placement courses. Classes are energized by scholarly and enthusiastic teachers and motivated students who respect each other's interests and talents. The student-faculty ratio is 5:1 and the average class size of 11 encourages lively intellectual exploration.

*The Arts.* The Arts Department provides an education in and exposure to the visual and performing arts. Introductory courses seek to clarify the relationship of arts to other traditional academic disciplines and to stress their importance as a humanizing force in both the past and present. Specialized classes explore the practical and theoretical aspects of various disciplines and help students to realize their own unique artistic potential.

As a complement to the academic program, the department sponsors monthly thematic and contemporary exhibitions, including semi-annual student shows in the Brody Gallery. The department also supports the School's dance and dramatic productions and, in cooperation with the Committee on Lectures and Concerts, brings professional performing groups to campus throughout the year. In alternate years, the arts faculty organizes a Departmental Weekend, during which students participate in a wide variety of workshops under the direction of professional artists.

*English.* The objectives of the English Department are providing thorough training in the thoughtful and efficient use of language, developing the analytical skills needed for a critical appreciation of literature, and exposing students to a variety of literature that will give them a sense of the sweep and tradition of literary expression. All English courses require intensive work in reading, writing, critical thinking, and classroom discussion. The department places great emphasis on developing an ability to express complex ideas in prose that is both logical and graceful.

*Foreign Language.* Thacher graduates must be proficient in a foreign language through the third-year level. They may complete their graduation requirement either in a modern language or in Latin.

The goals of the modern-language program (French, Spanish, and Chinese) are providing students with a practical knowledge of a language spoken throughout the world and providing insight into the major cultures within which the language is spoken. Students acquire an awareness of, and an appreciation for the values and ideas of a different culture and thereby gain a new perspective on their own society. To fulfill graduation requirements, students must be able to communicate (both orally and in writing) in informal situations with native speakers of the target language.

Beginning with the first year, classes are conducted entirely in the target language. The department uses a number of video-based immersion programs and insists on intensive oral work in class. By the end of the third level, students should possess a reasonable degree of fluency in speaking, reading, and writing and should be able to understand the language when it is spoken at a normal rate by a native speaker.

The goals of the Latin program are providing a sense of the way language works, giving students insight into Roman ways of thinking, and providing a discipline which requires exactitude and logic, and thereby encouraging imagination and feeling.

History. Small classes and close teacher-student relationships are central to instruction both in the content of history and in the form of historical thinking at Thacher. In terms of course content, students study both the universal and the unique in the human experience. The History Department hopes to instill in students two juxtaposed perspectives: first, an empathetic sensitivity to the fundamental truth that, as humans, we all share the most basic challenges and opportunities, triumphs and frustrations, joys and sorrows; and second, a celebratory acknowledgment of the diverse and sometimes unique ways in which peoples from the world's many cultures have experienced and come to grips with these universal human conditions.

With respect to the form of historical study, Thacher students read, discuss, and write, all in the intensely analytical and sharply focused way that small classes encourage and demand. Outside reading supplements the texts, and classroom discussion is essential.

Ninth-graders are required to take Introduction to World Cultures. All students are required to take World History in their sophomore year, and United States History in either their junior or senior year.

Mathematics. The purpose of the mathematics program is teaching both the concepts and necessary skills to prepare students for advanced work in mathematics and the sciences. Of equal importance are developing an appreciation of the structure of mathematics and making practical use of mathematics in such areas as statistics.

Students are expected to use a calculator in connection with most of their work, and while the computer is used by both teachers and students to facilitate learning, students are not required to learn computer programming. A separate Advanced Placement Computer Science course is offered.

Students are placed at a level based on their ability and background so that strong students can complete Advanced Placement Calculus before graduation. While the program is designed to allow many students experience in calculus, it also stresses statistics as an important alternative that forms the basis of further study in many fields.

Science. The objectives of the Science Department are providing students with a solid foundation in the fundamental sciences and an appreciation for the scientific process; developing students' ability to understand their surroundings and to make wise decisions regarding the natural world; and providing opportunities for students to explore a particular branch of science in greater detail. Every science course involves laboratory work that encourages a sense of discovery and enables students to employ the basic elements of scientific inquiry—critical observation, measurement, and deductive and inductive reasoning. Students entering as ninth-graders must take a minimum of two years of science: Physics and Chemistry. However, the Science Department strongly recommends exposure to the other major branch of science—Biology—in a third year of study.

Course Load Requirement. Each student must take five courses each term. Four of them must be solid courses, and the fifth may be either a solid or a non-solid course. A solid course is defined as one having substantial written homework. In general, studio classes such as sculpture and chorus receive full credit but are classified as non-solids. Courses in art history and music theory, like most courses in the other academic departments, are classified as solids. Students who take two or more Advanced Placement programs need take only four courses, all of which must be solids. In general, ninth-graders take the equivalent of five and one-half full-year courses while upper-class students generally take the equivalent of five full-year courses. Students may elect to take additional courses with the approval of their faculty advisor.

Graduation Requirements. Thacher's graduation requirements are based on the School's commitment to academic opportunity, rigor, and flexibility. Students must meet the departmental requirements outlined

## Appendix A

below, take the requisite number of courses each term, and successfully complete the Senior Exhibition. Thacher students generally go well beyond the minimum graduation requirements in areas of special interest, and the program is designed to allow and encourage the best mix, for each student, of broad, general background and advanced specialized study.

In order to graduate, students must complete the following departmental requirements (shown with the number of courses required and the average number of courses taken by Thacher students): The Arts (4 required, 6.3 average); English (8 required, 8 average); Foreign Language (6 or third-level proficiency required, 7 average); History (4 required, 6.8 average); Mathematics: (6 required, 8.2 average); Science (4 required, 7 average).

*Senior Exhibition.* The Senior Exhibition program is a culminating academic experience targeted for the final year of study at The Thacher School. Projects are of substantial magnitude, and are articulate presentations of organized thought about the issues, arguments, and conclusions presented in the material studied. Senior Exhibitions have both research and presentation components. Each senior works one-on-one with an advisor and an "exhibition coach," exploring an academic subject of personal interest. In the spring, seniors demonstrate mastery of their topics to the School community through formal presentations.

Recent Senior Exhibition topics have included: The Evolution of Electronic Music, Avalanche Accident Analysis, The Mozart Effect, Islamic Society and Woman's Role, AIDS: From Primates to Humans, Bible Codes, Two African Tribes Compared: The Mbuti Pygmies and the Maasai, Art in Children's Literature, Rain Forest Plants and Modern Medicine, Social Dance: A Reflection of Women's Culture, Egyptian Mathematics, and The Neuropsychology of Dreaming.

*Academic Exchange Programs.* Students at Thacher have opportunities to study abroad or at other programs in the United States. The School Year Abroad Program, conducted under the aegis of Phillips Academy (Andover), allows students to live and study abroad for a year in France, China, Italy or Spain. Thacher is a founding school for the Maine Coast Semester at Chewonki, Maine, a program which allows students to spend half of a year emphasizing the study of ecology and environmental science while continuing study of other disciplines. Admission to both SYA and MCS is highly competitive. Thacher is also a member of the English-Speaking Union and the American Field Service.

*The James G. Boswell Library.* Services provided by the library staff are an essential element of the academic program at Thacher. Beginning in the ninth grade year, students have group and one-on-one instruction and are guided in exploring and practicing use of the resources of the library as well as those that can be accessed online. By graduation, students have developed the skills and strategies they will need for the research and study required in college and thereafter.

Located at the center of the campus, the library houses a collection of over 26,000 volumes, over 100 periodicals, 800 records and tapes, video tapes, topographic maps, and a separate classical record library of over 10,000 albums. The library is also home to a small gallery where student works are often featured. Computers in the library provide all of the School's networked applications, and laptops can be connected to one of many network sockets located throughout the building.

The School's archives are an important asset to the School's program. The archives store and preserve the vital documents, objects, and photographs of the School's history. Ongoing displays created of archival materials, as well as special events and meetings with the archivist, help to connect current students with the rich history of the School.

*Technology.* Thacher is dedicated to implementing a full range of technology tools and innovations in both the classroom and the School's operations. The School maintains a School-wide Ethernet network. All dormitory rooms, classrooms, offices and lecture spaces are wired to the campus net and the internet. Thacher has twin T-1 connections to the internet, which provide fast email and web service to students and faculty. This access supports many kinds of telecommunications including a growing wireless network.

While many Thacher students use their own computers, Thacher also has two general-use computer labs and numerous workstations in the Library. Windows computers reside in one lab and Macintosh in another, along with multiple laser printers, optical scanners, digital cameras and a CD recorder. Computers are available for loan to all scholarship students. The music department also has a small computer lab with five MIDI (Musical Instrument Digital Interface) workstations, allowing students to create multi-track music compositions.

All lecture halls and some classrooms feature high-end computer projection systems for large-audience presentations. Additional technology tools include laser disc players in foreign language and science classrooms; computer image projection systems in physics, humanities and mathematics classrooms; and a video microscope and high resolution 33-inch monitor in the biology lab. Every student owns a TI-83 Graphing Calculator for use in all math and most science classes. The TI calculator is enhanced by a CBL (calculator-based laboratory) device which turns the TI into a portable data-gathering instrument for use in the lab or in the field.

### **Afternoon Program**

The Afternoon Program is based on the philosophy that students benefit from regular and strenuous physical activity. All Thacher students are involved in one of the Afternoon Program offerings every season (fall, winter and spring) of the academic year.

Thacher offers the following Afternoon Program activities:

#### Fall

8-person Football  
Boys and Girls Cross Country  
Girls Tennis  
Girls Volleyball  
Dance  
English Riding Program  
Rock Climbing  
Western Riding

#### Winter

Boys and Girls Basketball  
Boys and Girls Soccer  
English Riding Program  
Outdoor Program  
Western Riding

#### Spring

Baseball  
Boys and Girls Lacrosse  
Boys and Girls Track  
Boys Tennis  
Dance Ensemble  
English Riding Program  
Rock Climbing  
Kayaking  
Western Riding/Gymkhana

## Appendix A

*Athletics.* Athletics enjoy great popularity at Thacher. Although most students play several team sports while at Thacher, all students are required to play on at least one Third, JV or Varsity team prior to graduation. Ninth-graders may practice and compete on teams three days each week, provided they have met all of their Horse Program obligations. Thacher coaches emphasize participation, teamwork and sportsmanship. Winning and losing are methods for learning about commitment, friendship, cooperation, competition, limits and stress.

*The Horse Program.* The Horse Program is a long-standing tradition and a central part of the Thacher experience. Though most new students have had little or no experience with horses, each ninth-grader spends the first year learning to care for and ride one of Thacher's horses. Likewise, new tenth- and eleventh-graders choose one athletic season to participate in the Horse Program. Each morning before classes, students clean out their horse's stall and feed and care for their horse. After classes each day, students take their horse on its daily ride. Many students opt to ride even after they have fulfilled their requirement; over forty percent of Thacher students ride on a daily basis. One of the most anticipated events of the year is the annual Gymkhana, where teams of riders compete in traditional events of speed and skill.

Thacher's Horse Program teaches students far more than the basics of riding. Like a real-world job, taking care of a horse is a responsibility far greater than a student's mood or an unfortunate downpour. In working with their horses, Thacher students develop problem solving skills, learn patience and are rewarded with heightened self-esteem.

*The Outdoor Program.* As with the Horse Program, the Outdoor Program has a long and rich history at Thacher. Each sports term, the program offers instruction in outdoor sports such as rock- and ice-climbing, telemarking, downhill and cross-country skiing, winter camping, sea- and river-kayaking, and snow-shoeing. Regular weekend camping trips are the mainstay of the program, sending students and faculty out for two or three days to put into practice the skills they acquire during the week. In addition to the Outdoor Program trips, faculty and students often organize more informal weekend trips involving everything from horse-camping to kayaking.

Week-long camping trips the entire community takes each fall and spring are at the heart of Thacher's dedication to the outdoors. In faculty-led groups of six or seven, students head off to such varied destinations as the Sierra Mountains, Yosemite, the Los Padres National Forest, the Lost Coast, and the Mojave Desert to climb, backpack, horse-camp, kayak, and canoe. All trips stress "minimum-impact" camping skills as well as self-sufficiency and cooperative teamwork. Camping encourages students to develop a relationship with nature while presenting them with both physical and emotional challenges. In addition, the outdoors often provides fertile ground for developing faculty-student and peer friendships.

*Independent Projects.* Upperclassmen who have both demonstrated excellence in the traditional Afternoon Program offerings and shown an outstanding commitment to a specific talent or interest may apply for permission to pursue an Independent Project in lieu of the regular afternoon offerings. In order to be eligible, students must have completed their riding and athletic team requirements. Most Independent Projects culminate in a performance or presentation.

### **Community Life**

The Thacher community is renowned for its warmth, unpretentiousness, and willingness to lend a hand. It is an everyday expectation at Thacher that the faculty be available whenever academic help, guidance, or counseling is needed. This promotes a community with very close ties among students, faculty, and staff.

Community Service Program. The Community Service Program (CSP) serves two distinct functions. First, it addresses a very real need in the local community, providing bright and able volunteers to fulfill a wide variety of jobs. Second, it offers Thacher students an opportunity to serve in a manner that is meaningful, necessary, and appreciated. To do this, CSP has developed a broad program to involve, inspire, and inform as many students as possible. In recent community service projects students served as volunteers at local elementary schools, Head Start, the local Humane Society, Senior Day Care, the Braille Institute, Special Olympics, and Habitat for Humanity. Students and faculty volunteer two or three times a month at either the Oxnard or the Los Angeles Rescue Mission, and Thacher has become a sponsor of the seasonal Ojai Homeless Shelter program, providing both food and volunteers. In addition, Thacher students help feed patients at two convalescent hospitals four nights a week and have also been involved with the distribution of food through Food Share.

While the School has no community service requirement for its students, it believes that every student who wants to can serve, in a structured, meaningful, and satisfying way, and that, if there are enough programs, nearly every student will want to help in some way or another. Generally, about 75 percent of the students perform volunteer work at some point during the year.

Clubs. Some clubs at Thacher are steadfast traditions, like The Cum Laude Society and the Radio Station (KROK). Others, like the Gourmet Society, wax and wane with student interest. Students can always start their own clubs by finding a faculty advisor and getting approval from the Community Council, making them eligible for student activities funds.

Other clubs at Thacher include: Bible Study, California Mathematics League, Computer Network Consultants, El Archivero (yearbook), Film Society, Foreign Students' Club, French Club, Games Club, Gun Club, Instrumental Ensemble, Latin Club, Literary Society and Symposium, The Notes (newspaper), Sir Winston Churchill Debating Society, Ski Club (Mad-Bomber Skiing Society), Spanish Club, Thacher Pack and Spur Club and United Cultures of Thacher.

Performing Arts. All students, regardless of prior experience, are invited to participate in the Thacher Performing Arts Program. In addition to the faculty-directed activities below, many informal opportunities exist for students to dance, act, and play music.

The afternoon dance program combines jazz, ballet, and modern dance, and is offered as an athletic activity in the fall. Classes focus on improving strength, flexibility, and alignment, and on learning a variety of dance styles. Students may also audition for the Dance Ensemble, a repertory dance company which performs each term. Performances are prepared for Family Weekend, the Holiday Concert, and winter and spring productions.

The Thacher Masquers is a theatrical ensemble which puts on a fall play, a Winter Musical, and a number of one-act plays in the spring. The Chorus, Chamber Singers (a select singing group), and the Instrument Ensemble can be taken as half-credit elective courses. These musical groups give performances each term and often participate in the Winter Musical. Private instrumental and vocal lessons are also available.

Spiritual Life. Although nonsectarian and nondenominational in nature, Thacher recognizes the importance of religious and spiritual study and insight for the overall growth and well-being of individuals and the community. Blessed with a magnificent outdoor chapel, the School offers nondenominational services at various religious holidays, as well as regular convocations for the purpose of investigating spiritual, religious, and ethical issues. All students are encouraged to attend these services. The School also arranges transportation to various places of worship in Ojai each Saturday and Sunday for interested students. A World Religions course is offered to provide intellectual inquiry into the sociology, history, and theology of the world's great religions.

## Appendix A

Senior Leadership. Thacher relies on the positive and energetic leadership of the senior class. These most-experienced students are expected to set the example and help other students adjust to and thrive at Thacher. In addition, seniors are asked to help direct and administer many aspects of the School's programs. Approximately one-third of the senior class serve as prefects, selected by the Dorm Council to help administer the rules of the dorms and, more importantly, to serve as role models, counselors, and advisors for other students. Head Prefects for each of the dormitory areas are selected by the Dorm Council after the student body as a whole has had a chance to vote for those whom they feel would be best suited for these positions. There are many other important leadership positions open to seniors. The School seeks to allow every interested student the opportunity to take personal responsibility for the welfare of some dimension of the School through a leadership experience.

Honor Code. Thacher's Honor Code is a way of living cherished by the student body and faculty alike. Although it contains abstract concepts, the Honor Code is experienced in concrete ways. Thacher students never receive keys to their dorm rooms because doors at Thacher are never locked. A laptop computer left in the Dining Hall at lunch will still be there at dinner. Students are trusted to record the numbers of loads of laundry they clean rather than carry change and to sign out the library materials they need without supervision. The Community Council sponsors student-directed discussions about the Honor Code in order to help new students understand what the Honor Code means to them and how it shapes the Thacher community.

The Honor Code is as central to academics as it is to other areas of life at Thacher. The School helps ninth-graders and sophomores to understand issues of cheating and plagiarism. Juniors and seniors are trusted to act honorably as they take unproctored exams, allowing students to concentrate on their work in a quiet and less-pressured environment.

### **Boarding Life**

Dormitories. Thacher students live by class in eight single-sex dormitories. Ninth-graders nearly always live in single rooms; after the first year, many students have roommates. The dormitories typically are arranged in sections of six students and one senior prefect who helps administer dormitory rules and serves as a role model and informal advisor to the other students. Dormitories are run by dorm heads with help from faculty advisors and prefects.

Weekends. Thacher's Indoor Committee, made up of student representatives and faculty members, schedules activities for every Friday and Saturday night of the school year. Dances, movies, trips to Santa Barbara, plays, speakers, competitions, and games are some of the offerings on any given weekend. Every Friday night one dormitory sponsors an Open House at which male and female students and faculty are invited into the dorm to socialize, and every Saturday night the Head of School and his family open their home to all students, offering games, food, movies, and sometimes an impromptu dance. In addition to the Indoor Committee's scheduled events, there are often dorm activities after check-in, class trips to museums or other cultural events, student art exhibitions, camping trips, and other spontaneous excursions.

Advisors. All faculty members live in or near the dorms where they typically advise five students each. Faculty advisors offer both academic and personal counsel. Advisors are in regular communication with their advisees' teachers and prefects, ready to help with a difficult class or celebrate occasions such as a birthday. Perhaps most importantly, faculty advisors keep parents informed about their students' growth at Thacher, serving as a link between families and the Thacher community. Advisors write letters home twice a year and are quick to phone, fax, or e-mail with concerns or good news.

## FACULTY AND STAFF

During the 2004-05 academic year, the School's faculty consists of 42 members: 33 full-time teachers and 9 part-time teachers. Sixty nine percent of all faculty members (24 full-time and 5 part-time) hold advanced degrees. In addition, 5 faculty members have administrative roles.

The members of the faculty have taught at Thacher for an average of 17.3 years. The following table depicts the years of teaching experience of the School's full-time faculty.

### 2004-05 Full-Time Faculty Teaching Experience

<u>Years of Teaching Experience</u>	<u>Number of Teachers</u>
0-5 years	6
6-10 years	8
11-15 years	4
16-20 years	2
21+ years	<u>13</u>
TOTAL	33

Faculty turnover during the 2003-04 school year was 11.6%. Faculty turnover has averaged approximately 10.0% annually over the past five years.

The recruitment and retention of the best available teachers is of the highest priority to the School, and national searches are conducted for openings. Increasing faculty salaries is considered by the Thacher Board and Administration to be a major goal of the current capital campaign.

In determining faculty salaries, the Head of School, in consultation with the Assistant Head and other administrators, considers teaching and general educational experience, advanced degrees, age, versatility, and contribution, as well as salary schedules of schools similar to Thacher. Once the total allotted sum for increases has been set in the yearly budget, the Head of School, in consultation with the Assistant Head of School, sets salaries for the subsequent year based on the results of several evaluations of each teacher and their own judgment.

## Appendix A

The following table demonstrates both average and median Thacher teacher salaries, as well as the median teacher salary for NAIS Schools and Thacher's Peer School Group<sup>1</sup> for the past five academic years.

### Average and Median Teacher Salaries

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Average Thacher teacher salary	\$42,056	\$44,845	\$45,039	\$44,413	\$45,627
Median Thacher teacher salary	\$42,607	\$41,642	\$43,500	\$44,588	\$45,000
Median NAIS teacher salary	\$37,200	\$38,500	\$40,300	\$41,470	\$43,030
Median Peer School teacher salary	\$44,000	\$44,700	\$48,450	\$48,000	\$48,050

The decrease in Thacher's average teacher salary in 2003-04 was a result of higher-paid teachers retiring at the same time that teachers on the lower end of the salary scale were hired to replace them.

The table below shows the aggregate percent increase in teacher salaries for the academic years 1999-00 through 2004-05.

### Percent Increase in Teacher Salaries

<u>Academic Year</u>	<u>% Increase from Previous Year</u>
1999-00	4.0%
2000-01	4.0%
2001-02	4.0%
2002-03	4.5%
2003-04	2.5%
2004-05	2.5%

Thacher holds seven partially-endowed teaching chairs honoring faculty members whose service to the School spans many years and whose contribution to the lives of the School's students has been exceptional. A portion of the regular salaries of the honored teachers is funded by endowment income. There is no extra increment for the recipient beyond the honorarium given when the chair is presented.

It is the School's goal to provide on-campus housing for all teachers and their families. Having teachers live in close proximity to the dormitories is essential to the operations of Thacher as a boarding school. This housing, provided as a condition of employment, is free of charge. It is both a great benefit to teachers and an essential part of the School's program. Nearly all faculty members live on campus and are involved in multiple aspects of school life.

In addition to the faculty, as of Fall 2004, the School employed 60 staff including administrative staff, maintenance and housekeeping staff, residence hall staff, office and development staff, and athletic staff.

All employees receive the following benefits: medical coverage, dental coverage, Section 125, tuition remission, and the opportunity to participate in the Teachers Annuity Retirement Plan.

The faculty and staff of the School are not currently represented by a collective bargaining unit, and no union organizing is currently taking place at the School. The School considers its relationship with its employees to be excellent.

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<sup>1</sup> The Peer School Group to which Thacher compared itself is comprised of Cate School, Deerfield Academy, Groton School, The Hotchkiss School, Middlesex School, Phillips Academy, Phillips Exeter Academy, St. Andrew's School, St. George's School, St. Paul's School and the Taft School.

## RECRUITMENT OF STUDENTS

The School's admissions process is highly competitive, with low acceptance and strong matriculation rates. Over the last five years, applications to the School have increased by 7%, from 339 to 363. The School's acceptance rate has decreased from 30% to 28% during this same time period, while its matriculation rate has averaged 70%.

The following table shows the number of applications, acceptances and matriculants over the past five academic years:

### Applications, Acceptances, and Matriculants

Academic Year	<u>Applications</u>	<u>Acceptances</u>	Acceptance <u>Rate</u>	<u>Matriculants</u>	Matriculation <u>Rate</u>	Total <u>Enrollment</u>
2000-01	339	103	30%	68	66%	243
2001-02	322	105	33%	75	71%	243
2002-03	347	89	26%	65	73%	248
2003-04	356	97	27%	72	74%	247
2004-05	363	103	28%	68	66%	242

The matriculation rate decrease in 2004-05 is a reflection of the School's efforts to recruit from a more select pool of students who are also heavily recruited by other top schools.

The table below shows the breakdown of applications, acceptances and matriculants by grade level for the 2004-05 academic year.

### 2004-05 Grade Breakdown of Applications, Acceptances and Matriculants

<u>Grade</u>	Completed <u>Applications</u>	<u>Acceptances</u>	Acceptance <u>Rate</u>	<u>Matriculants</u>	Matriculation <u>Rate</u>
Grade 9	251	80	32%	51	64%
Grade 10	75	19	25%	14	74%
Grade 11	37	4	11%	3	75%
Grade 12	n/a	n/a	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
TOTAL	363	103	28%	68	66%

Students are rarely admitted at the 12<sup>th</sup> grade level, with the exception of students from England in an exchange program sponsored by the English Speaking Union.

## ENROLLMENT

Enrollment for the academic year 2004-05 is 242 students, of whom 210 are boarding students and 32 are day students. The student body is comprised of approximately equal numbers of boys and girls. The table below shows the student enrollment characteristics as of September 1 for academic years 2000-01 through 2004-05.

**Distribution of Students: Boarding/Day**

Academic Year	Boarding		Day		Total
	# of Students	% of Total	# of Students	% of Total	# of Students
2000-01	210	86%	33	14%	243
2001-02	210	86%	33	14%	243
2002-03	214	86%	34	14%	248
2003-04	210	85%	37	15%	247
2004-05	210	87%	32	13%	242

In academic year 2004-05, 67.4% of Thacher students come from California, with students from 23 other states comprising another 22.3% of the student body. The remaining 10.3% represent the School's international population, including students from Argentina, Australia, Canada, China, England, Japan, Kenya, Korea, New Zealand, Saudi Arabia, Taiwan, and Thailand.

**2004-05 Academic Year Geographical  
Distribution of Students by Region**

Region	# of Students	% of Students
California	166	67.4%
Pacific Northwest	5	4.5%
Texas / Mountain	20	8.3%
Mid-west	10	4.1%
East	13	5.4%
International	23	10.3%
Total	242	100.0%

For the 2004-05 school year, the School's ethnic composition is as follows:

**Ethnic Composition 2004-05\***

<u>Ethnicity</u>	<u>Percent</u>
Caucasian	71.5%
African American	6.2%
Asian American	15.7%
Native American	0.4%
Latino American	6.2%

\*Information based on NAIS categories

Attrition occurs when students voluntarily withdraw (for a variety of reasons) or are required to withdraw (for academic or disciplinary reasons). The Thacher School had an attrition rate of 3.6% in academic year 2003-04, far below the NAIS average of 9.9% for independent boarding/day schools. The table below shows the percentage of students who have withdrawn from Thacher on an annual basis in academic years beginning 1999 through 2003.

### Five-Year History of Attrition Trends

<u>Academic Year</u>	<u>Number of Students Departing</u>	<u>Percent of Total Enrollment</u>
1999-00	3	1.2%
2000-01	3	1.2%
2001-02	2	0.8%
2002-03	1	0.4%
2003-04	9	3.6%

Over the past five years, the reasons for attrition were disciplinary (8 students), family choice (7 students), medical (2 students) and academic (1 student).

### COLLEGE TESTING AND PLACEMENT

The Advanced Placement Program (AP) is a cooperative educational endeavor between secondary schools and colleges and universities. High school students take college level AP courses, culminating in an opportunity to demonstrate what they have learned by taking an AP Exam. Colleges and universities are then able to grant credit, placement, or both to these students. Scoring is based on a 1 to 5 point system, with a score of 3 indicating “qualified”, 4 indicating “well qualified” and 5 indicating “very well qualified.”

In the 2003-2004 academic year, 130 students took 299 AP exams in 16 subjects; Art History (9), Biology (28), Calculus AB (27), Calculus BC (3), Chemistry (15), Computer Science AB (3), English Literature (43), Environmental Science (20), Music Theory (5), Physics B (19), Psychology (42), Spanish Language (7), Statistics (26), Studio Art-Drawing (2), Studio Art-Design (2), US History (48).

The following table sets forth the number of AP exams taken by Thacher students as well as the number of scores of 3 or higher over the last five academic years.

#### Advanced Placement Examinations

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Number of exams taken	296	297	288	319	299
Number of scores “3” or higher	275	275	267	287	274
Percent of scores “3” or higher	93%	93%	93%	90%	92%

The following table shows the mean Scholastic Aptitude Test (“SAT”) scores for Thacher students compared to the national mean scores over the past five years.

#### Scholastic Aptitude Test Scores

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Thacher Mean (academic year)	1300	1330	1314	1280	1270
National Mean (calendar year)	1019	1020	1020	1026	1026
Thacher Mean as % of National Mean	128%	130%	129%	125%	125%

Since academic year 1999-2000, 50 Thacher students have received the National Achievement Award given by the National Merit Scholarship Program, 12 have been recognized as Finalists, an additional 14 as semi-finalists, and 50 have been named Commended Scholars.

One hundred percent of Thacher’s graduating class of 2004 chose to attend college. On average, ninety percent of each year’s seniors gain admission to one of their top three college choices. Representatives from over 60 colleges and universities visit Thacher annually. Over the last five years, Thacher

## Appendix A

graduates have attended a wide range of colleges and universities. The following table indicates the colleges and universities selected most frequently by Thacher graduating students from the academic years ending 1999 through 2004.

### College and University Matriculation 1999 through 2004

<u>College/University</u>	<u>Placements</u>	<u>College/University</u>	<u>Placements</u>
Stanford University	18	Cornell University	5
University of Southern California	13	Dartmouth College	5
Brown University	13	McGill University	5
Colorado College	12	Pepperdine University	5
University of California Berkley	11	Scripps College	5
Northwestern University	10	Trinity University	5
Columbia University	9	Vanderbilt University	5
Emory University	9	Wesleyan College	5
University of California Santa Cruz	9	Amherst College	4
University of Colorado Boulder	8	Carnegie Mellon University	4
California Polytechnic San Luis Obispo	7	Claremont McKenna College	4
New York University	7	Colorado State University	4
Colby College	6	George Washington University	4
University of California Los Angeles	6	Georgetown University	4
Univ. of California Santa Barbara	6	Johns Hopkins University	4
University of Pennsylvania	6	Tufts University	4
Yale University	6	Vassar College	4
		Williams College	4

### TUITION AND FEES

The following table shows the School's tuition rates by grade level for the academic years 1999-00 through 2004-05.

#### Thacher School Tuition

<u>Academic Year</u>	<u>Day Tuition</u>	<u>Percent Increase</u>	<u>Boarding Tuition</u>	<u>Percent Increase</u>
2000-01	\$17,450	7.0%	\$26,850	3.9%
2001-02	18,500	6.0%	28,200	5.0%
2002-03	19,500	5.4%	29,450	4.4%
2003-04	20,800	6.7%	31,250	6.3%
2004-05	21,850	5.0%	32,750	4.8%

The following table shows the 2004-05 academic year tuition rates for Thacher and the Peer Group Schools to which Thacher compares itself.

**Comparative 2004-05 Tuitions**

	<u>Boarding Tuition</u>	<u>% Increase from 2002-03</u>	<u>Day Tuition</u>	<u>% Increase from 2002-03</u>
Cate School (Carpenteria, CA)	\$33,075	5.0%	\$24,475	7.8%
Deerfield Academy (Deerfield, MA)	32,100	7.1%	24,600	6.9%
Groton School (Groton, MA)	35,800	5.5%	26,850	5.5%
Hotchkiss School (Lakeville, CT)	31,925	4.9%	27,075	1.8%
Middlesex School (Concord, MA)	34,750	5.9%	27,800	5.9%
Phillips Academy Andover (Andover, MA)	31,850	5.8%	24,620	5.2%
Phillips Exeter Academy (Exeter, NH)	31,600	5.3%	22,800	7.6%
St. Andrew's School (Barrington, RI)	31,950	10.2%	19,750	n/a
St. George's School (Newport, RI)	32,000	6.7%	21,500	7.5%
St. Paul's School (Concord, NH)	32,675	5.0%	n/a	n/a
The Taft School (Watertown, CT)	32,900	5.8%	24,000	6.7%
<i>Peer School Average</i>	<i>32,784</i>	<i>6.1%</i>	<i>24,347</i>	<i>6.1%</i>
<b>Thacher School</b>	<b>32,750</b>	<b>4.8%</b>	<b>21,850</b>	<b>5.0%</b>

**FINANCIAL AID**

Financial aid at Thacher is based on the proven financial need of a student's family. In order to determine need, the Financial Aid Committee applies national financial aid standards and guidelines established by the School and Student Service for Financial Aid (SSS) in Princeton, New Jersey. In addition to completing the formal application for aid published by SSS, families are required to submit their most recent tax information with all accompanying schedules, insuring that the School has a clear assessment of a family's financial needs. All families must re-apply for financial aid each year as the School re-assesses income and assets annually.

In 2004-05, the School is awarding \$1,253,600 in grants to support 27.7% of the student body, with an average grant of \$18,710. The following table shows the grants awarded to students by the School during academic years 2000-01 through 2004-05.

**Financial Aid Awards**

Academic Year	Number of Grant Recipients	Percent of Student Body	Total Grants	Average Grant	Thacher- Funded Assistance	% of School- Funded Assistance	% of Gross Tuition and Fee Revenue
2000-01	54	22%	\$924,555	\$17,121	\$477,860	51.7%	15.5%
2001-02	57	24%	919,837	16,137	432,839	47.1%	14.6%
2002-03	54	25%	1,031,350	19,099	541,839	52.5%	15.5%
2003-04	67	29%	1,232,995	18,403	784,750	63.6%	17.6%
2004-05	67	28%	1,253,600	18,710	773,576	60.1%	17.6%

The increases in Total Grants are in keeping with the School's Strategic Plan objective of increasing financial and ethnic diversity at the School.

**The Olympus Fund**

The Olympus Fund, established in 1997, is designed to assist financial aid recipients demonstrating the greatest financial need as well as their families. The Fund's goal is maintaining resources to help families receiving significant financial aid meet those costs that extend beyond the standard tuition and School fees. Two funds exist under the Olympus Fund umbrella:

*The Olympus Fund.* This Fund covers the costs of basic supplemental expenses for students demonstrating the highest levels of financial need. Olympus packages include an initial purchase of

## Appendix A

riding boots, hat, helmet and basic camping equipment; a modest annual spending allowance; a phone card for each semester; and, in some cases, funding to cover travel costs for two round trips home.

*The Participation Fund.* The Participation Fund enables students to undertake projects or endeavors considered essential to their educational experience, based on individual talents and aspirations. Any student receiving financial aid covering more than 50% of tuition may apply for an award from this Fund. Examples might include support for music lessons, or art supplies for an independent project. Funds may also be used to support the involvement and participation of high-need families in on-campus events, for example, to offset travel and accommodation expenses for Family Weekend and Big Gymkhana Weekend.

The Olympus Packages, while renewed annually, are typically awarded to recipients for each of their years at Thacher. In the 2004-2005 Thacher has 20 Olympus Fund Scholars enrolled – between 4 and 6 Olympus Scholars per class.

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## FINANCIAL MATTERS

The following summaries and discussions of financial matters should be read in conjunction with the 2003 financial statements of the School, related notes, and independent auditors' report included as Appendix B to this Official Statement.

**Accounting Matters**

The following table summarizes the Statement of Activities and Changes in Net Assets of the School for the fiscal years ended June 30, 2000 through June 30, 2004. The information presented in this table has been extracted from the audited financial statements of the School for the respective years.

**The Thacher School  
Statement of Unrestricted Activities  
For the Years Ended June 30**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
REVENUES:					
Tuition and Fees	\$5,770,000	\$5,984,201	\$6,307,136	\$6,668,271	\$7,041,500
Student Services and Summer Camps	563,366	1,465,506	933,222	363,680	527,315
Other	106,309	94,792	44,431	45,012	50,587
Donations	1,250,894	1,352,869	1,411,291	1,448,516	1,631,051
Interest Income	952,623	857,426	478,543	341,038	247,710
Dividend Income	304,281	548,477	271,792	400,882	616,237
Net Realized and Unrealized Gain or (Loss) On Investments	11,541,092	(2,403,960)	(9,242,411)	1,795,575	7,744,959
Net Assets Released from Donor Restrictions	634,728	5,293,878	5,064,597	1,536,861	2,196,982
Total Revenues	<u>21,123,293</u>	<u>13,193,189</u>	<u>5,268,601</u>	<u>12,599,835</u>	<u>20,056,341</u>
EXPENSES:					
Academic Programs	3,171,504	3,421,606	3,691,757	4,128,894	4,398,642
Auxiliary Programs	3,730,248	4,333,666	4,245,809	3,998,612	4,370,178
Student Activities	129,744	143,075	131,255	168,086	164,676
General and Administrative	1,580,207	1,719,220	1,958,877	2,192,148	2,295,072
Fundraising	725,665	906,573	1,034,789	1,073,547	1,074,810
Investment Counselor Fees	222,324	247,899	180,493	173,656	173,754
Provision for Uncollectible Pledge Receivables	-	187,768	108,693	(8,011)	(6,883)
Net Present Value Adjustment	-	-	(288,809)	-	-
Interest Expense	-	12,688	69	-	-
Depreciation Expense	890,354	853,631	847,567	860,146	813,596
Total Expenses	<u>10,450,046</u>	<u>11,826,126</u>	<u>11,910,500</u>	<u>12,587,078</u>	<u>13,283,845</u>
Change in net assets	10,673,247	1,367,063	(6,641,899)	12,757	6,772,496
Net assets at beginning of year	32,380,293	54,321,414	55,688,477	49,046,578	49,091,737
Restate Restrictions on Net Assets	<u>11,267,874</u>	<u>-</u>	<u>-</u>	<u>32,402</u>	<u>-</u>
Net assets at end of year	<u>\$54,321,414</u>	<u>\$55,688,477</u>	<u>\$49,046,578</u>	<u>\$49,091,737</u>	<u>\$55,864,233</u>

The School's net assets as of June 30, 2000 -2004 were as follows:

	<u>2000<sup>2</sup></u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Unrestricted	\$54,321,414	\$55,688,477	\$49,046,578	\$49,091,737	\$55,864,233
Temporarily restricted	6,081,548	5,487,192	4,333,364	7,608,341	9,930,517
Permanently restricted	<u>22,677,689</u>	<u>24,086,430</u>	<u>24,825,010</u>	<u>25,942,766</u>	<u>29,096,320</u>
Total net assets	\$83,080,651	\$85,262,099	\$78,204,952	\$82,642,844	\$94,891,070

<sup>2</sup> In fiscal year 2000, the School changed its reporting of marketable securities from a cost basis to market value.

## Appendix A

### Budget Procedures

Each fall, major departments (those with budgets over \$50,000) are asked to prepare zero-based budgets as follows: Budget Managers in each department rank the categories in last year's budget by importance. They are asked to eliminate any categories not supporting the essential activities of the department as well as identify those that are not sufficiently supported. Expenditures over \$100 that are necessary to support the essential activities are identified, and smaller expenditures are captured in miscellaneous accounts.

Programs, items or activities that will require funding are ranked in increasing levels of importance. This is done by identifying what is needed to continue operations at the same level (Continuation Budget), what could be reduced (Minimum Budget), and what would be required to achieve an expanded level (Luxury Budget). The cost for each unit or activity is identified, and the aggregate expense for each level of expenditure is calculated for each budget line.

Budget requests from the major departments are due in early December. The completed budget worksheets are reviewed in meetings between the Business Manager and the Budget Managers. Under the guidance of the Business Manager, the Business Office analyzes the spreadsheets and works with the Administrative team and Head of School to evaluate and prioritize the budget requests. In addition, the Business Office takes into consideration recommendations from the Admissions Office for Financial Aid and Tuition and a recommendation from the Development Office for the Annual Fund goal. The endowment draw (5%) is calculated on a trailing-quarter average of the last 19 quarters. Other smaller sources of income are determined by the Business Manager, including activities and areas such as Summer Camps, Horse Department, Textbook and Store, and Miscellaneous Income.

The Business Manager prepares an Operating Budget for Board consideration, and Thacher's Finance Committee and subsequently the Board as a whole approves Tuition, Financial Aid, and the Operating Budget for the coming year at the February Board meeting.

Departments with budgets under \$50,000 are asked to submit budget requests in the late spring or summer. Funding is set aside for this purpose when the budget is adopted in February.

### Investments

The Thacher School's Endowment Fund (the "Fund") is composed of gifts received by the School, including both unrestricted gifts and donor-restricted gifts. The Fund is maintained to provide income for the donor's purpose or, if unrestricted, the general operation of the School.

The Investment Committee is authorized by the Board of Trustees to approve and make investments within the guidelines of the Board-approved investment policy. The Committee meets as needed but at least quarterly to review investment performance. Monticello Associates (Denver, CO) serves as the School's endowment advisory consultants.

The following tables show the market value of the School's cash and investments since 2000.

#### Cash and Investments (Market Valuation)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Marketable Securities	\$49,428,494	\$41,501,578	\$37,025,963	\$44,277,011	\$58,675,223
Cash & Cash Equivalents	<u>9,303,132</u>	<u>16,131,213</u>	<u>12,426,617</u>	<u>9,963,816</u>	<u>\$5,571,750</u>
Total	\$58,731,626	\$57,632,791	\$49,452,580	\$54,240,827	\$61,499,716

The total market value of the School's Endowment funds as of June 30, 2004 was \$61,499,716. \$32,403,435 of these investments were unrestricted.

**Investment Objectives:** The goal of the Endowment's investments is to earn the highest possible total rate of return, consistent with the Fund's tolerance for risk. The Endowment's primary return objective is preserving the purchasing power of the unitized value of its assets, net of administration and investment management costs, over rolling five-year periods. This goal is synonymous with the pursuit of a time-weighted return on endowment assets that is at least equal to an inflation rate (as measured by the CPI) plus five percent net of all costs, measured over rolling five-year periods.

**Asset Allocation.** According to the School's Endowment Investment Policy, diversification of assets will insure that adverse or unexpected results from one security or security class will not have a detrimental impact on the entire portfolio. Diversification is interpreted by the Investment Committee as including diversification by asset type, characteristic and number of investments. Securities of any one issuer (except the U.S. Government) shall not exceed 10% of the market value of the total portfolio.

The following table demonstrates the current and target asset allocations, as determined by the School's Investment Committee:

### **Investment Allocation**

<u>Asset Class</u>	<u>Current*</u>	<u>Target</u>	<u>Policy Range</u>
<u>Total Return</u>	<u>75.7%</u>	<u>80%</u>	<u>50-80%</u>
Domestic Equity	26.8%	20%	15-35%
International Equity	12.6%	15%	10-20%
Hedged Equity	12.3%	15%	10-20%
Absolute Return	16.9%	25%	20-35%
High Yield	4.2%	0%	0-10%
Private Equity	2.9%	5%	0-10%
<u>Inflation Hedging</u>	<u>3.6%</u>	<u>10%</u>	<u>5-20%</u>
TIPS	3.6%	5%	2.5-10%
Real Estate	0%	5%	2.5-10%
Resource-related	0%	0%	0-5%
<u>Fixed Income and Cash</u>	<u>20.7%</u>	<u>10%</u>	<u>10-20%</u>

\*As of August 31, 2004

Rebalancing will occur when any asset class is outside its range for two successive quarter-ending periods, or more frequently upon the direction of the Investment Committee.

**Endowment Spending Policy.** Distributions from the endowment are determined by the Board of Trustees, which considers anticipated budget needs, available funds, recent endowment performance, and overall economic conditions. The practice of the Board has been to adopt a distribution rate of the Endowments assets equal to 5% of the Endowment corpus. The corpus amount is determined by calculating a rolling average of the prior 19 quarter-ending Endowment balances, with the most recent quarter-ending balance being September 30 of the prior year. This distribution amount is approved in February of each fiscal year for budgeting purposes.

### **Administration's Discussion of Financial Performance**

During the past five fiscal years the School has experienced positive financial results. From 2000 to 2004, the School's net tuition revenues increased 22%. Operating expenses increased 27% during the same time period. The largest expense growth was in fundraising (48%), reflecting the School's expansion of staff to support and implement the \$70 million "The Campaign for Thacher" (see "Development" herein).

## **Appendix A**

Investment assets (including restricted and unrestricted long term investments) have grown approximately 4.6% since 2000, and are expected to increase significantly over the next five years as pledges from the current capital campaign are received. During 2005 the proceeds of an unrestricted \$10 million gift are expected to be received. Campaign gifts and the corresponding growth of investment assets will increase the funds transferred to operations pursuant to the School's endowment spending policy. This anticipated growth in investment assets is expected to improve Thacher's operating flexibility.

Over the past five years the financial aid budget grew by 36%. During that period, financial aid increased from 15.5% of gross tuition and fee revenue to 17.6%. These changes were the result of the Administration's decision to increase the amount of available financial aid in order to attract a more diverse student body. Future growth in financial aid will be supported by the increased funds available from endowment transfers. The Administration expects that financial aid will range between 17.6% and 22.0% of gross tuition and fees over the next several years.

Thacher has funded approximately \$5.1 million of capital improvements from operations over the past five years. Net assets increased from \$83.1 million to \$94.9 over that time period, reflecting the School's enhanced physical plant and the growth of its investments. The Project is a further step in the continuing process of making necessary and important improvements to the School's educational facilities.

## **DEVELOPMENT**

The Development and Alumni Affairs office at Thacher is responsible for all fund raising, alumni activities, constituent relations and donor communications. The professional staff consists of a Director of Development, Director of the Annual Fund and Constituent Relations, Director of Reunion Giving and Stewardship, Director of Special Gifts and Planned Giving, Major Gifts Officer and a Research/Grants Coordinator. Four support staff provide assistance in the areas of office management, data base management, leadership giving, and general clerical support.

Thacher has a long and successful history of annual and capital campaign fundraising. Methods used to raise funds include highly personalized direct mail solicitations, phone-a-thon follow-up, personal face-to-face solicitations and special events. A large volunteer structure supports the work of the professional staff, and includes alumni, parents, past parents, grandparents and friends.

### **Alumni**

Thacher had 2,892 living alumni as of June 2004. In 2003-04, 46% contributed to the Annual Fund. The Development Office staff work with 264 class representatives who assist in keeping the Alumni connected to Thacher. Class representatives help with the annual phone-a-thon the School has each spring.

The School has the following annual events for Alumni:

- Gatherings of Thacher administration and alums in major metro areas (nine in 2004)
- Fall Alumni Day
- Grandparent's Day
- Alumni Reunion Weekend
- The Golden Trout Alumni Encampment (in the High Sierras)
- The Alumni/Parent Auction

### **Capital Campaign**

Thacher has a demonstrated history of successful capital campaigns. To coincide with the School's centennial celebration, Thacher conducted a campaign from 1986 to 1989, raising over \$17 million. In its 'dorm project' campaign in the early 1990's, the School raised over \$6 million, well above the stated goal of \$5 million.

Thacher is currently in the midst of a capital campaign titled “The Campaign for Thacher” (the “Campaign”). The Campaign is a milestone effort to secure the resources necessary to strengthen Thacher's programs and facilities and to safeguard its financial wellbeing for future generations. These current and future needs, based on Thacher’s mission, have been identified in the Strategic Plan which drives the School's program.

The School has set out to raise the funds necessary to increase its endowment and complete capital building projects that support academic and boarding school life. The Campaign focuses on endowment for faculty salaries, financial aid, and unrestricted needs. Capital fundraising efforts include new faculty homes, the Commons Project (an Arts Building and Student Center which will replace the Lamb Auditorium and the Chase Infirmary), a new health center, and an additional athletic field. The freshman dormitories and the Hill dormitories will be upgraded to the standards of the remodeled Upper School, Middle School, and the Los Padres dormitories.

The Campaign began in 1999, and is scheduled to conclude in 2008. The stated Campaign goal is \$70 million dollars; as of August 31, 2004, the School had received approximately \$54.8 million in gifts and pledges. This total includes a single gift of \$10 million, which the School is scheduled to receive in fiscal year 2005. As of June 30, 2004, Board of Trustees giving was at 92%, totaling over \$11.2 million.

### Annual Fund and Total Giving

The following tables show the history of annual giving, unrestricted and restricted, for the past five fiscal years.

#### Annual Fund Giving (Unrestricted)

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Alumni	\$556,798	\$546,619	\$555,500	\$644,837	\$643,592
Trustees	118,336	187,429	141,456	188,094	297,730
Corporate	54,435	81,637	79,322	77,141	51,629
Bequests	-	-	-	11,000	-
Parents*	462,121	446,792	544,825	501,028	737,836
Total	<u>\$1,191,690</u>	<u>\$1,262,477</u>	<u>\$1,321,103</u>	<u>\$1,407,100</u>	<u>\$1,730,787</u>

\* Includes current and past parents

#### Annual Fund Giving (Restricted)

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Total	\$90,288	\$144,260	\$147,063	\$127,497	\$170,698

Participation rates for 2003-2004 Annual Fund donors were as follows:

#### Thacher Annual Fund Participation Rates

	<u>% Participation</u>	<u>% of Total Contribution</u>
Alumni	46%	41.6%
Trustees	85%	17.7%
Current Parents	41%	18.1%
Parents of Alumni	25%	11.5%
Others	24%	11.1%

The five-year history of restricted gifts to the School is as follows:

## Appendix A

### Restricted Giving

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Temporarily Restricted	\$4,502,929	\$5,590,224	\$4,233,833	\$4,503,851	\$4,944,119
Permanently Restricted	<u>5,005,079</u>	<u>1,561,428</u>	<u>506,952</u>	<u>907,303</u>	<u>3,134,739</u>
Total	\$9,508,008	\$7,151,652	\$4,740,785	\$5,411,154	\$8,078,858

The following table demonstrates the five-year history of total philanthropic giving by category:

### Total Philanthropic Giving

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Alumni	\$1,784,246	\$2,225,386	\$2,096,073	\$4,384,423	\$3,340,848
Trustees	1,701,445	1,688,139	1,187,251	1,410,070	2,463,733
Parents	660,586	551,651	814,822	1,357,947	1,221,609
Foundations, Corporations	113,949	108,137	180,672	339,174	197,982
Faculty, Staff, Friends, Other	<u>59,192</u>	<u>288,470</u>	<u>736,186</u>	<u>223,255</u>	<u>220,962</u>
Total	\$4,319,418	\$4,861,783	\$5,515,004	\$7,714,869	\$7,445,134

### GEOGRAPHIC AREA AND FACILITIES

Thacher is sited on a 370 acre campus located in the foothills of California's Coastal Mountain Range, abutting the Los Padres National Forest. The campus is situated in a beautiful rural hillside setting approximately 3 miles northeast of Ojai, California, 90 miles north of Los Angeles and 25 miles southwest of Santa Barbara. Campus facilities consist of more than eighty buildings including classrooms, dormitories, a dining hall, administration offices, auditorium, chapel and residences for a large portion of the faculty and staff. The School also maintains a 40 acre equestrian facility with over 100 horses, and has access to the Los Padres National Forest for trail riding.

The following table identifies the School's facilities, approximate net square footage of each, year of construction and year(s) of most recent substantial upgrade(s).

<b>Thacher School Facilities</b>			
<u>Facility</u>	<u>Sq. Ft.</u>	<u>Year Built</u>	<u>Year of Upgrade</u>
Admissions Office; WLT House	1,850	1970	1997
Beck House & Garage	1,900	1955	1993
Bixby Handball Court Apartments	2,376	1960	1980
Business Office & Apartments	2,308	1980	1993
Camp Supply	504	1950	1995
Casa de Piedra Dorm	5,200	1966	1998
Chapel & Room K	1,600	1940	1999
Chickering Barn - Horse Stage	1,760	1975	1998
Classrooms: I & J	1,320	1940	2001
Development, Classrooms, Study Hall	5,520	1930	1992 & 2001
Garage	514	1955	
Gymkhana Field House & Restrooms	640		
Gymkhana Grandstand - covered	1,000		
Gymnasium	7,000	1984	1998
Hay Storage Building	1,200	1985	
Headmaster's Residence	3,040	1980	1998
Health Center	3,587	1965	1998
Hendrickson Road House & Garage	2,000	1960	1990
Hills Dining Hall & Olympus	9,185	1910	1980
Humanities Building	12,315	1980	1992 & 1998
Hunt Barn - Hay Storage	3,360	1930	1998
Lamb Auditorium - Kitchen	5,292	1958	1992 & 1998
Laundry Storage	540	1950	
Lee Quong Dorm	1,930	1960	1980 & 1998
Library	10,296	1990	1990 & 1998
Livermore Pack Station	3,452	1950	1980 & 1998
Locker Rooms	4,000	1984	1998
Los Padres Dorm	10,850	1994	1994
Lower School Dorm & Apartments	7,349	1960	1980 & 1998
Lower School Residence	1,804	1960	1990 & 1998
Maintenance Center Compound	3,000	1955	1989 & 1998
Matilija Dorm	2,570	1966	1998
Middle School Dorm & Apartments	10,056	1998	
Mudd Science Building	11,500	1980	1990 & 2001
Music Box Residence	760	1988	
Outdoor Chapel (open air)	1,000	1984	
Outdoor Theatre - Stage	500	1950	1998
Reservoir (roof only)	1,000	1960	
Residence	1,028	1955	1998
Residence	1,108	1968	1998
Residence	912	1968	1998 & 2000
Residence (Schryver)	2,500	1975	1996
Residence (J.B. Close House)	1,800	1989	1993
Residence (4724 Thacher Road)	2,012	1968	1999
Residence (Gate House)	1,254	1955	

## Appendix A

Residence: Huyler - lifetime tenancy	1,750	1984	1984 & 1998
Residence: Manson	2,000	1984	1994 & 1998
Residence and Carport	1,215	1970	1998
Residence and Carport	2,000	1960	1998
Residence: Bowman	1,464	1950	1992
Residence: Deliverence	1,054	1940	1980 & 1998
Residence: Haggard & carport	2,000	1984	1998
Residence: Jacobsons	2,090	1966	1998
Residence: Klausler & carport	2,000	1984	1997 & 1998
Residence: Maintenance Supvr.	1,440	1955	1997 & 1998
Residence: Mazzola	2,288	1965	1998
Residence: Sespe	1,080	1930	1998
Residence: Stone House	2,012	1905	1998
Residence: Swan	1,185	1960	1999
Residence: Vickerys	1,528	1965	1998
Residence: (Bates Motel)	800	1950	2001
Royal Barney Hogan Woodshop/Workshop	870	1988	
Sespe Dorm	4,900	1965	1998
Steel Barns & manure holding bins (2 each)	17,500	2002	
Student Union Building	980	1950	1980
Topa Topa Dorm	2,670	1968	1998
Twitchell Barn	2,656	1960	1998
Upper School Dorm & Apartments (2)	13,704	1995	1995 & 1998
Total Main Facilities Square Feet:	223,878		
Additional Facilities Square Feet*:	6,443		
Total Facilities Square Feet:	230,321		
* Includes facilities less than 500 sq ft. (i.e. garages, carport, pump house, locker rooms)			

## THE PROJECT

The proceeds of the Bonds will be used to pay costs, including costs of issuance and capitalized interest for one or more of the following purposes (“the Project”):

**1. Commons Project.** The Commons Project is designed to revitalize the core of the Thacher campus by providing a new and attractive center for the School’s social and cultural life. The project includes construction of a new Student Commons and Arts Building.

The Student Commons will feature areas for impromptu gatherings of students, faculty and visitors in a relaxed setting. The space will include a small café, book store, game room, conference room, and post office. The approximately 9,000 sq-ft. Student Commons will replace an existing 980 sq-ft. structure.

The Arts Building will provide working classrooms for teaching music and dance as well as a venue for outside lecturers and performers invited to the School. The 450-seat theater is sized to accommodate the entire Thacher community and replaces an auditorium with limited capacity (330) and less than desirable acoustics. The 15,500 sq-ft. building will include rehearsal spaces for music and dance, dressing rooms, storage for stage props and costumes, and offices for the theater faculty. The Building’s proximity to the Student Commons will allow the Commons to serve as the gathering point for the community before and after the many on-campus cultural events scheduled throughout the school year.

Two existing buildings, the Auditorium and the Health Center, must be demolished to make the site available. This work began in July, 2004; construction is projected to be completed in July 2005 for the Student Commons and September 2005 for the Arts Building. The estimated cost of this core project is \$15,000,000.

2. Faculty Residences. Two new 1,876 square-foot faculty residences were added to the campus during the 2003-2004 school year. This increase in on-campus housing improved the ratio of supervisory adults to students, while at the same time giving the School more to offer in the recruiting of new faculty members. Pre-manufactured homes were used to reduce the overall time needed to complete the project. Total project cost for installation of the two residences was \$540,000.

3. Synthetic Track Surface. In an effort to remain competitive within the regional league track and field events, Thacher decided install a synthetic surface on its running track and field events areas. The installation was completed in October 2004. The total cost of this portion of the Project was approximately \$325,000.

4. Visiting Faculty Residence. A visiting faculty residence is currently being designed for construction on campus. This facility will accommodate short-term visiting lecturers and performers. Guest speakers and performers are frequently invited to both entertain the students and expose them to a wide diversity of opinions and cultures. Historically these guests have been housed with faculty members on campus or, when necessary, in nearby hotels or motels. The proposed on-campus housing is expected to help the School attract a wider spectrum of guests and allow them more time to interact with the students. The estimated budget for this project is \$300,000 and construction is planned to begin in the fall of 2004.

5. Fitness Center. Thacher currently has a large collection of fitness training equipment scattered about the perimeter of the gymnasium. This arrangement both interferes with team practices in the gym and makes supervision of those working on the equipment difficult. The proximity of the two activities also increases the possibility of injury. A new facility is now being designed to house the fitness equipment in an addition to the existing Locker Room. This project is estimated to cost \$300,000 and will begin as soon as a Building Permit is obtained, ideally by the end of 2004.

6. Athletic Practice Field and New Irrigation System. Recent schedule changes within the sports leagues with which Thacher competes have resulted in the School having eight spring sports teams in need of practice fields. Scheduling these teams on the two existing fields is disruptive to normal classroom activities. The School is planning the development of a new athletic practice field in an existing avocado grove on campus. The new field will require extensive grading on the gently sloping hillside.

In addition, to supply water to the new field, the School's irrigation system must be upgraded. This will require a new 500,000 gallon water storage tank and upgrades to the existing piping in several areas. Fire protection features will also be incorporated in the upgrades to improve campus fire safety. The preliminary designs for the field and water system are currently being reviewed by county agencies. Construction will begin as soon as County approvals are obtained, possibly as soon as the fall of 2004. The overall costs for both the field and irrigation system improvements are estimated at \$800,000.

7. Health Center. The School's 50-year old Health Center will be demolished to make room for the Commons Project discussed above. A small existing dormitory will be used as an interim Health Center. The School recently began the design of a new Health Center to be built as soon as possible. The facility will include a full examination room, dispensary, nurse's office, and four patient rooms as well as residential units for a fulltime nurse and a part-time night nurse. The complete facility is expected to require a 4,500 square foot building and has an estimated cost of \$1,250,000.

## Appendix A

**8. Lower School Dormitory Improvements.** Plans are currently being developed to add dormitory rooms and a new faculty residence to the Lower School Dormitory. Initial diligence suggests that any changes to the existing portions of the dormitory will require significant renovation of the entire structure. It is therefore likely that the entire complex will be demolished and rebuilt. This project would result in approximately 10,000 square feet of new dormitory space with an expected cost of about \$4,500,000.

**9. Hills Dormitory Improvements** Three dormitories on campus (Sespe, Matilija and Topa Topa) are collectively referred to as the Hills Dormitories. These were built in the 1960s and are now considered functionally obsolescent. Many of the rooms are too small to function as doubles, yet larger than needed for a single. More importantly, no faculty residences are included within the core of the complex, making supervision of the students difficult. The School plans to raze this entire complex and replace it with more suitable dormitories with integrated faculty residences. The estimated cost for this project is approximately \$5.3 million.

Total estimated project costs exceed the proceeds from the Series 2004 Bonds. Additional costs will be funded from the capital campaign or other funds available to the School.

The following table sets forth the estimated sources and uses of the Series 2004 Bond proceeds.

### **Estimated Sources and Uses of Bond Proceeds**

#### **Estimated Sources**

Par Amount of Bonds	<u>\$20,000,000</u>
<b>Total Sources</b>	<b>\$20,000,000</b>

#### **Estimated Uses**

Costs of Issuance and Related Expenses	\$271,000
Deposit to Project Fund	<u>19,729,000</u>
<b>Total Uses</b>	<b>\$20,000,000</b>

The School has no present plans to incur any additional long term debt beyond the Series 2004 Bonds.

## **GOVERNANCE**

Thacher's Board has twenty-four (24) Trustees who are elected for terms of three years. With the exception of the President, no Trustee may be elected for, or may serve more than, nine consecutive years of three full consecutive three-year terms. The President is elected for one five-year term. Former Presidents are ineligible for election to additional terms as President or Trustee, but become a Trustee Emeritus. The President of the Thacher School Alumni Association and the President of the Thacher Parents' Association are ex-officio Trustees with voting privileges.

The Board meets three times a year, in October, February, and May. The final meeting held each year is the annual meeting.

There are six standing committees of the Board: Executive Committee, Buildings and Grounds Committee, Development Committee, Finance Committee, Program Committee, and Trustee Committee. In addition there are three Board sub-committees; both Investment and Audit sub-committees report to the Finance Committee and a Personnel sub-committee reports to the Executive Committee. From time to time, the Board may establish other committees it deems appropriate and helpful to the proper discharge of its duties. A description of each committee and its responsibilities follows:

(a) **Executive Committee.** The Executive Committee can exercise all of the powers of the Board in the intervals between the meetings of the Board, excepting the power to appoint or terminate the

appointment of the Head of School. The Executive Committee has the responsibility for counseling and advising the Board concerning the appointment and termination of other personnel.

(b) Buildings and Grounds Committee. The Buildings and Grounds Committee is responsible for the construction, alteration, repair, and maintenance of the grounds, buildings, and physical improvements of the School.

(c) Development Committee. The Development Committee is responsible for the fund-raising activities of the School.

(d) Finance Committee. The Finance Committee is responsible for the finances, budget, audit (including obtaining and reviewing each year an audit of the financial statements), books of account, and employment of public accountants, as well as overseeing the School's investments.

(e) Program Committee. The Program Committee is responsible for the overview of educational programs of the School, including the Horse and Camping Programs, the activities of the students of the School, and the operation, maintenance, and acquisitions of the Library.

(f) Trustee Committee. The Trustee Committee is responsible for the maintenance and development of the Board of Trustees and assists the President and the Head in the organization and structure of the Board and its Committees to maximize the contributions of its members. The Committee selects and nominates persons to fill vacancies on the Board of Trustees and persons to serve as officers of the School; assists the Executive Committee in planning for the Board's leadership; conducts the annual evaluation of the Board and its leadership; and identifies, codifies, and maintains current policies concerning the Board and Administration of the School.

The current members of the Board, the year of their initial appointment, the year their terms expire and their principal business affiliations are as follows:

**The Thacher School  
2004-2005 Board of Trustees**

<u>Member</u>	<u>Officer Position</u>	<u>Principal Occupation</u>	<u>Year Elected</u>	<u>Term Expires</u>
Jeffrey C. Barbakow		Private investments; former CEO, healthcare/hospital management and entertainment companies	1999	2005
Susan P. Bechtel		Member of non-profit boards	2003	2006
Margaret Hooper Blair	Vice President	Photographer/graphic artist; member of non-profit boards	2000	2006
John P. Carver		Former Executive Retail Apparel Company; member of non-profit boards	2004	2007
David K. Chao		Venture Capital; Partner Doll Capital Management; member of non-profit boards	2001	2007
Lewis W. Coleman		Former President of The Gordon & Betty Moore Foundation; member of corporate and non-profit boards	2004	2007
Monique L. DeVane		Director of Development and External Affairs, Shady Hill School	2003	2006
Justin M. Faggioli	President	Rancher; Former Winery Executive; member of corporate and non-profit boards	1998	2008*
Elizabeth Broome Grether		Rancher; member of non-profit boards	2002	2005
Emily Williamson Hancock		Member of non-profit boards	2003	2006

## Appendix A

Cecilia Healy Herbert	Vice President	Former Executive, J.P. Morgan; member of corporate and non-profit boards	2002	2005
John G. Lewis, Jr.		Sr. Consultant, Marts & Lundy fundraising	1999	2005
Thomas D. McCloskey, Jr.		Real Estate Development/Management, Venture Capital	1996	2005
William E. Oberndorf		Managing Director of SPO Partners; member of corporate and non-profit boards	2003	2006
Lance R. Odden		Retired Headmaster of The Taft School	2002	2005
Signe Ostby		Rancher; member of non-profit boards	2004	2007
Jon & Jan Pease**		Medical Practice and Healthcare management	2004	2007
Cecilia B. Rauch		Income Tax Planning Consultant; member of non-profit boards	2002	2005
Toby Rosenblatt	Secretary	President of Founders Investments Ltd.; member of corporate and non-profit boards	2003	2006
Richard M. Salem	Treasurer	Former Executive; member of non-profit boards in educational and environmental endeavors	1997	2006
Andrew R. Shakman	Vice President	Managing Director, Anacapa Group	2001	2007
Linda Davis Taylor		President of Philip V. Swan Associates	2002	2005
Lawrence B. Werlin, MD		Obstetrician-Gynecologist, Infertility specialist	2004	2007
Jacob C.Y. Wu		Managing Director, Wing Lee Management Co.	2002	2005
Reza Zafari***		Sr. Vice President, Merrill Lynch	2003	2006

\* As President, Mr. Faggioli is currently serving a five-year term.

\*\* Chairs of the Thacher Parents' Association; ex-officio members of the Board of Trustees

\*\*\* President of the Thacher Alumni Association; ex-officio member of the Board of Trustees

Three persons at Thacher hold Board Officer positions but are not members of the Board: Michael K. Mulligan, Head of School; Roger P. Klausler, Assistant Secretary; William E. Prather, Assistant Treasurer.

The Thacher Board of Trustees 2004-05 committee chair assignments are: Executive Committee: Justin Faggioli; Audit Sub-Committee: Cecilia Rauch; Buildings and Grounds Committee: Andrew Shakman; Development Committee: William Oberndorf; Finance Committee: Richard Salem; Investment Sub-Committee: Richard Salem; Personnel Sub-Committee: Linda Davis Taylor; Program Committee: Margo Blair; Trustee Committee: Susan P. Bechtel.

## ADMINISTRATION

The Board of Trustees delegates to the Head of School responsibility for the administration of the School's programs and facilities. The Head of School is assisted by a team of School administrators, including the following members of the senior leadership team.

**Michael K. Mulligan, Head of School:** Mr. Mulligan came to the Thacher School in 1986, serving as Dean of Administration, Assistant Headmaster and Dean of Students, and Interim Head of School before his appointment to Head of School in 1992. Prior to his time at Thacher, he worked as Director of College Placement and teacher, coach, and dormitory resident at Governor Dummer Academy, his high school alma mater.

In his current position as Head of School, Mr. Mulligan oversees all administrative activities at Thacher, including strategic planning, development, admissions, faculty hiring and relations, curriculum, plant and business management, and Board and alumni relations. He also teaches a World Religions elective and coaches Freshman Soccer.

Mr. Mulligan earned his Bachelor of Arts degree in economics from Middlebury College; he holds a Master of Arts in English from Middlebury College's Breadloaf School and a Master of Education Administration, Planning, and Social Policy from Harvard University. He has served as a board member of The Association of Boarding Schools (TABS) for the past several years and will become TABS Chair in the fall of 2004. Other professional memberships include The Headmasters Association, National Association for Principals of Girls Schools, National Association of Secondary School Principals, California Association of Independent Schools, Jackson Hole Land Trust and Teton Valley Land Conservancy.

**Peter G. Robinson, Assistant Head of School:** Mr. Robinson joined the Thacher faculty in the fall of 1971 after teaching for three years at his high school alma mater, Williston Academy. Since his arrival at Thacher, Mr. Robinson has taught English and run the Literary Society. He spent 12 years as the Varsity Boys lacrosse coach, 15 years as the English Department Chair and 10 years as a dorm head. In the fall of 1982 after a sabbatical in Rome, Mr. Robinson was appointed Director of Studies and then, in 1987, Assistant Head of School. After a brief sojourn back in the faculty in the early 1990's, Mr. Robinson re-joined the Administration, first as Dean of Faculty, then as Director of Studies, and finally, once again, as Assistant Head of School. He continues to teach a class of English, work in the dorm, run the Literary Society and advise the Literary Magazine. Mr. Robinson is also the Assistant Varsity Girls' lacrosse coach. Mr. Robinson received his BA from the College of Wooster, with a double major in English and Political Science, and his MA from Vanderbilt University in English. He has done summer work at the University of Massachusetts (Education), UC Berkeley (English), Wesleyan University (English), and UCLA (Italian).

**William E. Prather, Business Manager:** Mr. Prather started at Thacher in the spring of 1986. In his position as business manager, he oversees the School's Business Services, Budget, Investments, Employee Benefits, and Food Service. Prior to his time at Thacher, Mr. Prather spent seventeen years with Saga Food Service. His last position with Saga was Manager of District Operations for Southern and Central California, managing food service operations for fourteen colleges, universities, and schools. Mr. Prather obtained his BA from Sacramento State, with a major in Public Administration. He spent six years on the Ojai Area Plan Citizen's Advisory Commission and three years on the Citizen's Advisory Commission for the Ventura County Fire Protection District. Mr. Prather is a Past President of the Ojai Rotary Club and is the current Treasurer of the Ojai Rotary Club Education Foundation. Mr. Prather is also the Treasurer for the Senior Canyon Water Company, a position he has held for twelve years.

**Rick Wilson, Director of Development:** Mr. Wilson joined Thacher in 2003. As head of the Development Office, he oversees all fundraising efforts and activities at the School. Mr. Wilson has over 25 years of management and fund raising experience with social service and educational institutions. He has served as Executive Director for Boys' and Girls' Clubs, Big Brothers/Big Sisters of America, InterAid International Relief And Development, and most recently as the Assistant Headmaster for Business and External Affairs at Curtis School in Los Angeles. He has successfully headed campaigns that have in total raised over \$100 million. Mr. Wilson earned a BA degree from California State University, Sacramento, and holds a Certified Fund Raising Executive (CFRE) designation from the Association of Fund Raising Professionals.

**William P. McMahon, Director of Admissions:** Mr. McMahon has served as Thacher's Director of Admission since 2003. In addition to his duties as Director of Admission, he is responsible for marketing at the School. Before coming to Thacher he served as Director of Marketing and Planning at the Northfield Mount Hermon School, in Northfield, Massachusetts, where he oversaw all marketing, communications, strategic planning, and institutional research efforts. He earned an undergraduate degree from Colgate University and an MBA from Columbia University.

## Appendix A

**Sabina McMahon, Dean of Students:** Ms. McMahon joined the Thacher administration in 2004. She previously served as Dean at the Northfield Mount Hermon School and Chair of the Nightingale-Bamford Mathematics Department in New York City. In addition to her duties as Dean of Students, Ms. McMahon serves as an advisor to sophomore girls and teaches one math course. She also serves on the Administrative Committee, Co-Chairs the HR&S Program, and is Chair of the Dorm Council. Ms. McMahon earned her BA in English from Colgate University, followed by an MA in mathematics education from Columbia.

### ACCREDITATION AND MEMBERSHIPS

Thacher is accredited by the Western Association of Schools and Colleges and holds memberships in the National Association of Independent Schools, the Council for the Advancement and Support of Education, The Association of Boarding Schools (TABS), the Secondary School Admission Test Board, the National Association of College Admissions Counselors, A Better Chance, Inc. (ABC), the American Field Service, the Cum Laude Society, the English-Speaking Union, School Year Abroad, and the Maine Coast Semester.

### PENSION PLANS

The Thacher School's Pension Plan is a 403(b) defined contribution retirement plan offered through the Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA/CREF). The fund is required of all full-time faculty under 26 who have been employees for two years and all full-time faculty 26 or over who have been employed for one year. The School and the employee each pay 5% of the employee's salary during the first three years of participation. After three years, the School's payment increases to 10% while the employee's contribution remains at 5%. The total value of employer/employee contributions as of September 30, 2004 was \$13,389,660.

### INSURANCE POLICIES

The School carries standard industry insurance policies, including dental, medical, life, total disability, commercial package, commercial general liability, educator's legal liability, excess liability, foreign liability, student accident, catastrophic accident, international travel medical, and worker's compensation. The School also carries dental, vision, medical, life and long-term disability insurance available to all full-time employees.

### LITIGATION

The School has no knowledge of any threatened or existing claim or litigation for which insurance coverage does not exist or which could otherwise have a material adverse effect on the School's financial condition or its operations or affect its ability to carry out the transactions relating to issuance of the Series 2004 Bonds.

**APPENDIX B**

**Financial Statements of the School for the Fiscal Years Ending**

**June 30, 2004 and June 30, 2003**

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**THE THACHER SCHOOL, INC.**  
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Statement of Activities for the Year Ended June 30, 2004	6
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Statements of Cash Flows	8
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**THE THACHER SCHOOL, INC.**  
OJAI, CALIFORNIA  
OFFICERS OF THE CORPORATION AS OF JUNE 30, 2004

MEMBER

OFFICE

Justin M. Faggioli

President

Javier F. Arango

Vice President

Margo H. Blair

Vice President

Toby Rosenblatt

Secretary

Richard M. Salem

Treasurer

Michael K. Mulligan

Head of School

Roger D. Klausler

Assistant Secretary

William E. Prather

Assistant Treasurer

**THE THACHER SCHOOL, INC.**  
**OJAI, CALIFORNIA**  
**MEMBERS OF THE BOARD OF TRUSTEES AS OF JUNE 30, 2004**

<u>MEMBERS</u>	<u>LENGTH OF TERM</u>	<u>TERM EXPIRES IN JUNE</u>
Javier F. Arango	3 years	2004
Jeffrey C. Barbakow	3 years	2005
Susan P. Bechtel	3 years	2006
Margaret Hooper Blair	3 years	2006
David K. Chao	3 years	2004
Rev. Charles H. Clark	3 years	2004
Monique L. DeVane	3 years	2006
Justin M. Faggioli	5 years	2008
Elizabeth Broome Grether	3 years	2005
Martha W. Hammer	3 years	2004
Emily W. Hancock	3 years	2006
Cecilia Healy Herbert	3 years	2005
John G. Lewis, Jr.	3 years	2005
Thomas D. McCloskey, Jr.	3 years	2005
William E. Oberndorf	3 years	2006
Lance R. Odden	3 years	2005
Cecilia B. Rauch	3 years	2005
Toby Roseblatt	3 years	2006
Richard M. Salem	3 years	2006
Andrew R. Shakman	3 years	2004
Linda Davis Taylor	3 years	2004
Terdema L. Ussery	3 years	2004
Jacob C.U. Wu	3 years	2005
Paul L. Yelder	3 years	2004

EX-OFFICIO MEMBERS

Mrs. Robert H. Adams, Honorary Trustee  
Hon. Jerome H. Berenson, President Emeritus (1973-1978)  
Reid W. Dennis, President Emeritus (1991-1993)  
E. Randolph Labbe, President Emeritus (1993-1998)  
Arthur A. Milligan, President Emeritus (1970-1973)  
Marshall C. Milligan, President Emeritus (1998-2003)  
Samuel A. Pond, Honorary Trustee  
Kenneth O. Rhodes, President Emeritus (1982-1987)  
Reza Zafari, President of the Alumni Association  
Edward L & Carol Cahill, Presidents of the Parent's Association

**THE THACHER SCHOOL, INC.**  
OJAI, CALIFORNIA  
ADMINISTRATION AS OF JUNE 30, 2004

MEMBER

POSITION

Michael K. Mulligan

Head of School

Peter G. Robinson

Assistant Head of School for Internal Affairs,  
Director of Studies, and Dean of Faculty

Bill McMahon

Director of Admissions

Christina K. Mazzola

Dean of Students

Maria Morales-Kent

Director of college counseling

William E. Prather

Business Manager, Assistant Treasurer of  
Corporation

Jane D. McCarthy

Director of External Affairs and Assistant to  
the Head of School

# JACOBS & JACOBS

ACCOUNTANCY CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTABLISHED 1944

JOHN JACOBS  
JEFFREY A. BORENSTEIN  
GREGG W. BURT  
KATHLEEN M. INMAN  
PAUL THOMAS  
MICHELLE POPE

GODFREY JACOBS  
1912-1983  
ANZAC JACOBS  
1919-1974

OJAI, CALIFORNIA 93023  
603 WEST OJAI AVE., STE. A  
TELEPHONE (805) 646-4321  
FAX (805) 646-6248

SIMI VALLEY, CALIFORNIA 93065  
1200 EAST LOS ANGELES AVE., STE. 204  
TELEPHONE (805) 522-3650  
FAX (805) 522-0931

THOUSAND OAKS, CALIFORNIA 91360  
455 EAST THOUSAND OAKS BLVD., STE. 101  
TELEPHONE (805) 497-4007  
FAX (805) 497-0849

REPLY TO:

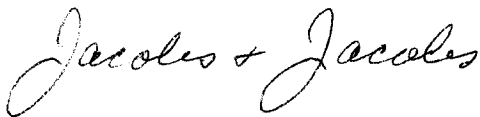
## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
The Thacher School, Inc.

We have audited the accompanying statement of financial position of The Thacher School, Inc. (a nonprofit organization) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Thacher School, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Thacher School, Inc. as of June 30, 2004 and 2003 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Ojai, California  
August 25, 2004

**The Thacher School, Inc.**  
Statement of Financial Position  
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$5,571,750	\$9,963,816
Investments (Notes 1 & 2)	58,675,223	44,277,011
Accounts Receivable - Net (Note 5)	51,599	185,705
Unconditional Promise to Give (Note 3)	12,391,666	10,504,954
Notes Receivable - Net (Notes 4 and 5)	0	0
Prepaid Expenses	319,222	298,423
Inventory & Supplies (Note 1)	99,768	135,840
Land & Buildings (Notes 1 & 6)	25,399,740	25,399,740
Furniture & Equipment (Notes 1 & 6)	1,436,988	1,580,113
Projects in Process (Notes 1 & 6)	2,729,141	1,431,273
Less: Accumulated Depreciation	<u>(10,888,316)</u>	<u>(10,251,077)</u>
<b>TOTAL ASSETS</b>	<u><b>\$95,786,781</b></u>	<u><b>\$83,525,798</b></u>
 <b>LIABILITIES</b>		
Line of Credit (Note 9)	\$0	\$0
Accounts Payable	221,262	278,931
Accrued Liabilities	190,975	96,622
Deferred Revenue (Note 1)	<u>483,474</u>	<u>507,401</u>
<b>Total Liabilities</b>	<u><b>895,711</b></u>	<u><b>882,954</b></u>
 <b>NET ASSETS</b>		
Unrestricted:		
Operating	17,538,294	20,205,784
Plant	18,677,553	18,160,049
Long-term Investment	<u>19,648,386</u>	<u>10,725,904</u>
	55,864,233	49,091,737
Temporarily Restricted (Note 7)	9,930,517	7,608,341
Permanently Restricted (Note 8)	<u>29,096,320</u>	<u>25,942,766</u>
<b>Total Net Assets</b>	<u><b>94,891,070</b></u>	<u><b>82,642,844</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$95,786,781</b></u>	<u><b>\$83,525,798</b></u>

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
Statement of Activities  
For the Year Ended June 30, 2004

	Unrestricted			Temporarily	Permanently	
	Operating	Plant	Long-Term Investment	Restricted	Restricted	Total
REVENUES:						
Tuition and Fees	\$7,041,500			\$0	\$0	\$7,041,500
Student Services and Summer Camps	527,315					527,315
Other	50,587					50,587
Donations	1,631,051			4,944,119	3,134,739	9,709,909
Interest Income	22,164		225,546	4,000	21,916	273,626
Dividend Income	4,763		611,474	9,611	3,396	629,244
Net Realized and Unrealized Gain or (Loss)						
On Investments	(4,133)		7,749,092	70,921	(8,588)	7,807,292
Net Assets Released from Donor Restrictions (Note 7)	2,196,982			(2,196,982)		
Total Revenues	11,470,229	0	8,586,112	2,831,669	3,151,463	26,039,473
EXPENSES:						
Academic Programs	4,398,642			0	0	4,398,642
Auxiliary Programs	4,370,178					4,370,178
Student Activities	164,676					164,676
General and Administrative	2,288,531	6,541				2,295,072
Fundraising	1,074,810					1,074,810
Investment Counselor Fees	173,754			185	1,461	175,400
Distributions to Donors	0			16,120	32,380	48,500
Provision for Uncollectible Pledge Receivables	(6,883)			131,901	(20,573)	104,445
Net Present Value Adjustment	0			361,287	(15,359)	345,928
Interest Expense	0					0
Depreciation Expense		813,596				813,596
Total Expenses	12,463,708	820,137	0	509,493	(2,091)	13,791,247
Changes in Net Assets	(993,479)	(820,137)	8,586,112	2,322,176	3,153,554	12,248,226
Capital Expenditures:						
Student Union Construction	(673,422)	673,422				0
Faculty House Construction	(525,492)	525,492				0
Other Construction, Equipment & Furniture	(138,727)	138,727				0
Net Purchases of Securities	(336,370)		336,370			0
Net Assets as of Beginning of Year	20,205,784	18,160,049	10,725,904	7,608,341	25,942,766	82,642,844
Net Assets as of End of Year	\$17,538,294	\$18,677,553	\$19,648,386	\$9,930,517	\$29,096,320	\$94,891,070

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
Statement of Activities  
For the Year Ended June 30, 2003

	Unrestricted			Temporarily	Permanently	
	Operating	Plant	Long-Term Investment	Restricted	Restricted	Total
REVENUES:						
Tuition and Fees	\$6,668,271	\$0	\$0			\$6,668,271
Student Services and Summer Camps	363,680					363,680
Other	45,012					45,012
Donations	1,448,516			4,503,851	907,303	6,859,670
Interest Income	0		341,038	5,084	26,336	372,458
Dividend Income	37,591		363,291	8,197	1,706	410,785
Net Realized and Unrealized Gain or (Loss)				0	0	
On Investments			1,795,575	52,597	81,711	1,929,883
Net Assets Released from Donor Restrictions (Note 7)	1,536,861			(1,714,861)	178,000	0
Total Revenues	10,099,931	0	2,499,904	2,854,868	1,195,056	16,649,759
EXPENSES:						
Academic Programs	4,128,894					4,128,894
Auxiliary Programs	3,998,612					3,998,612
Student Activities	168,086					168,086
General and Administrative	2,188,537	3,611				2,192,148
Fundraising	1,073,547					1,073,547
Investment Counselor Fees			173,656	174	1,079	174,909
Distributions to Donors	0			11,394	32,502	43,896
Provision for Uncollectible Pledge Receivables	(8,011)			95,783	(52,046)	35,726
Net Present Value Adjustment	0			(286,377)	(177,720)	(464,097)
Interest Expense	0					0
Depreciation Expense		860,146				860,146
Total Expenses	11,549,665	863,757	173,656	(179,026)	(196,185)	12,211,867
Changes in Net Assets	(1,449,734)	(863,757)	2,326,248	3,033,894	1,391,241	4,437,892
Capital Expenditures:						
Performing Arts Building	(465,881)	465,881				
New Barn	(257,897)	257,897				
Student Union	(161,123)	161,123				
Other Capital Projects and Equipment	(126,589)	126,589				
Net Purchase of Securities	(532,067)		532,067			
Net Assets as of Beginning of Year	23,166,673	18,012,316	7,867,589	4,333,364	24,825,010	78,204,952
Restate Restrictions on Net Assets	32,402			241,083	(273,485)	0
Net Assets as of End of Year	\$20,205,784	\$18,160,049	\$10,725,904	\$7,608,341	\$25,942,766	\$82,642,844

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
Statement of Cash Flows  
For the Years Ended June 30, 2004 and 2003

(Indirect Method)	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income (Loss)	\$12,248,226	\$4,437,892
Adjustments to reconcile net income to net cash used in/provided by operating activities:		
Depreciation	813,596	860,146
Adjust the provision for loss on receivables	(6,883)	(8,011)
Provision for loss on pledges	0	35,726
(Gain) Loss realized and unrealized on securities	(7,807,292)	(1,929,883)
Loss on property disposed	6,541	3,612
Permanently restricted gifts	(1,487,929)	(1,525,217)
(Increase) Decrease in accounts receivable	129,117	(132,071)
(Increase) Decrease in unconditional promises to give	(1,886,712)	597,624
Decrease in student loans	11,872	14,187
Decrease in inventory	36,072	4,242
(Increase) in prepaids	(20,799)	(50,119)
Increase in accounts payable	36,684	25,310
Increase (Decrease) in deferred revenues	(23,927)	11,200
Total adjustments	<u>(10,199,660)</u>	<u>(2,093,254)</u>
Net cash provided by operating activities	2,048,566	2,344,638
Cash flows from investing activities:		
Purchase of investment securities	(8,385,979)	(13,943,857)
Proceeds from sale of investments	1,795,059	8,622,691
Acquisition of property, plant & equipment	<u>(1,337,641)</u>	<u>(1,011,490)</u>
Net cash used in investing activities	<u>(7,928,561)</u>	<u>(6,332,656)</u>
Cash flows from financing activities:		
Principal payment on line of credit	0	0
Proceeds from permanently restricted gifts	1,487,929	1,525,217
Net cash received in financing activities	<u>1,487,929</u>	<u>1,525,217</u>
Net (decrease) in cash & cash equivalents	(4,392,066)	(2,462,801)
Cash & cash equivalents, beginning of year	<u>9,963,816</u>	<u>12,426,617</u>
Cash & cash equivalents, end of year	<u><u>\$5,571,750</u></u>	<u><u>\$9,963,816</u></u>

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
Statement of Cash Flows (Continued)  
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Partial statement of cash flows (Direct Method)		
Cash flows from operating activities:		
Cash received from tuition, gifts & grants	\$14,071,732	\$12,938,082
Cash paid for program & support services	(12,926,036)	(11,376,687)
Interest & dividend income	902,870	783,243
Interest paid	0	0
Net cash provided by operating activities	<u>\$2,048,566</u>	<u>\$2,344,638</u>

The accompanying notes are an integral part of these financial statements.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities**

The Thacher School, Inc. is a private, independent school, which is governed by a Board of Trustees, a twenty-seven-member group. The School receives funding from student tuitions, annual givings (donations), endowment distributions, and private grants and gifts. The Board has decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

**Public Support and Revenue**

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided, when needed, based on management's evaluation of potential uncollectible promises receivable at year-end.

Grants and other contributions of cash and other assets are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment contributions are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Contributions of donated noncash assets are recorded at their fair values in the period received.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions of donated services that creates or enhances nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. . No amounts have been reflected in the statements for donated services because they did not meet the criteria for recognition under SFAS No. 116.

**Basis of Accounting**

The School prepares its financial statements in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

The School considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

**Investments**

Investments in marketable securities are stated at market value in the accompanying Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Venture capital investments and equity securities without readily determinable fair values are stated at cost.

**Investment Income and Gains**

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in-first-out method.

**Buildings, Equipment, Improvements, and Depreciation**

All acquisitions of property and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	30 - 40 years
Improvements	10 - 20 years
Equipment	5 - 10 years

**Donated Property and Equipment**

Donated property and equipment are recorded as contributions at their estimated values and as an increase in the unrestricted net assets. Contributions of cash that must be used to acquire property and equipment are reported as temporary restricted net assets. The School reclassifies the restricted contribution to unrestricted net assets when the property or equipment is acquired.

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Revenue**

Deferred revenue in the unrestricted fund results from the School recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school term are deferred until the instruction commences.

**Income Taxes**

The School is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3). Accordingly, no provision for federal income taxes has been made.

**Unrestricted Operating Activity**

The statement of activities is broken down into three components: operating, plant and long-term investment. The operating component is all unrestricted activity during the year excluding plant depreciation, gain or loss on equipment sold, and investment performance activity.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 2: CASH AND INVESTMENTS**

The Cash and Investments, which are stated at market value at June 30, 2004 and 2003, consist of the following:

	<u>CURRENT YEAR</u>		<u>PRIOR YEAR</u>	
	Carrying Amount <u>6/30/04</u>	Market Value <u>6/30/04</u>	Carrying Amount <u>6/30/03</u>	Market Value <u>6/30/03</u>
<u>CASH</u>				
Cash on Hand	\$ 8,400	\$ 8,400	\$ 5,900	\$ 5,900
Demand Accounts	1,779,208	1,779,208	2,174,800	2,174,800
Pooled Investments				
Cash Funds	<u>3,784,142</u>	<u>3,784,142</u>	<u>7,783,116</u>	<u>7,783,116</u>
Totals	<u>\$ 5,571,750</u>	<u>\$ 5,571,750</u>	<u>\$ 9,963,816</u>	<u>\$ 9,963,816</u>
 <u>INVESTMENTS</u>				
Stocks	\$ 8,827,979	\$11,732,828	\$ 8,974,106	\$11,139,933
Bonds and Notes	783,258	810,095	1,127,646	1,330,584
Mutual Funds -				
Pooled Investments	40,270,951	44,765,644	30,887,173	30,794,782
Venture Capital				
Limited Partnerships	<u>1,962,193</u>	<u>1,366,656</u>	<u>1,415,360</u>	<u>1,011,712</u>
TOTALS	<u>\$51,844,381</u>	<u>\$58,675,223</u>	<u>\$42,404,285</u>	<u>\$44,277,011</u>

Demand accounts are cash balances invested in several financial institutions. The Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) insures accounts at each institution up to \$100,000. At June 30, 2004 the organization's uninsured cash balance totaled \$2,082,261. The pooled investment cash funds of \$3,784,142 are secured by a portfolio of short-term assets and are managed by several professional investment managers. The investments in stocks, bonds, and notes are acquired in the School's name and are held by either a trust department or broker.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

Mutual funds – pooled investments are comprised of various funds and managers. Approximately \$24,100,000 is invested in funds that can use derivative or hedging strategies as of June 30, 2004. Management selects hedge funds that seek to preserve principal and produce an acceptable rate of financial return. Management believes that the hedge funds selected are well diversified, that the hedge strategies will not result in any significant loss of principal, and any resulting loss from a hedge transaction would only diminish the rate of financial return. The net investment income and gains and losses from hedge activity have been reported on the statement of activity.

**NOTE 3: PROMISES TO GIVE**

Promises to give at June 30, 2004, are as follows:

Capital Campaign	\$12,683,147
Dorm Projects	400,000
Charitable Remainder Trusts	<u>963,398</u>
Total promises to give	<u>\$14,046,545</u>
Receivable in less than one year	\$4,606,304
Receivable in one to five years	8,408,274
Receivable in more than five years	<u>1,031,967</u>
Total promises to give	14,046,545
Less discounts to net present value	(918,943)
Less allowance for uncollectible promises	<u>(735,936)</u>
Net promises to give at June 30, 2004	<u>\$12,391,666</u>

Promises to give which are receivable in more than one year are discounted at 4.6% per annum.

**NOTE 4: NOTES RECEIVABLE - STUDENTS**

In the past the School has made student loans ranging from \$500 to \$3,000 per year. Interest accrues at variable rates. Students are required to make 32 quarterly payments

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

after their departure from the School. The first 16 quarterly payments are for interest only. The School received payments of principal totaling \$10,863 and \$16,198 for the fiscal years 2003-04 and 2002-03, respectively. There were no new student loans for the past several years.

**NOTE 5: ALLOWANCE FOR UNCOLLECTIBLES**

Accounts receivable of \$90,994 and notes receivable (student loans) of \$45,878 are shown net of allowance for uncollectibles. The allowances for uncollectible receivables and provision for bad debt expense are as follows:

	<u>Parent Receivables</u>	<u>Student Loans</u>
Allowance for uncollectibles, July 1, 2003	\$85,843	\$57,750
Provision for bad debt expense	7,121	(4,989)
Write-off of uncollectible accounts	<u>(53,569)</u>	<u>(6,883)</u>
Allowance for uncollectibles, June 30, 2004	<u>\$39,395</u>	<u>\$45,878</u>

Management uses outstanding balances in excess of 120 days in determining an allowance for uncollectible parent receivables and maintains an allowance for uncollectible student loans for all loans.

**NOTE 6: PROPERTY, EQUIPMENT AND IMPROVEMENTS**

The following is a summary of the changes in the Fixed Assets:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>June 30, 2004</u>
Land & Buildings	\$25,399,740	\$ -0-	\$ -0-	\$25,399,740
Furniture & Equipment	1,580,113	39,773	(182,898)	1,436,988
Projects in Process	<u>1,431,273</u>	<u>1,297,868</u>	<u>-0-</u>	<u>2,729,141</u>
	28,411,126	1,337,641	(182,898)	29,565,869
Accumulated Depreciation	<u>(10,251,077)</u>	<u>(813,596)</u>	<u>176,357</u>	<u>(10,888,316)</u>
	<u>\$18,160,049</u>	<u>\$524,045</u>	<u>\$ (6,541)</u>	<u>\$18,677,553</u>

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 7: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods:

Periods after June 30, 2004	\$1,418,912
Program Activities	828,124
Future Projects	<u>7,683,481</u>
Total temporarily restricted net assets	<u>\$9,930,517</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restriction accomplished:	
Performing Arts/Student Union/Commons	\$ 1,532,314
Faculty House	374,278
Donor Restrictions Accomplished-Other	<u>290,390</u>
Total restrictions released	<u>\$ 2,196,982</u>

**NOTE 8: PERMANENTLY RESTRICTED NET ASSETS**

Net assets of \$29,096,320 and \$25,942,766 were permanently restricted for Endowment purposes at June 30, 2004 and June 30, 2003, respectively.

**NOTE 9: LINE OF CREDIT**

The School has a commitment from Bank of America for a revolving line of credit available through May 1, 2005. The amount of the line of credit is \$2,000,000. The interest rate is the Bank's prime rate plus 0.25-percentage point. The School has to maintain total unrestricted net assets equal to at least \$40,000,000 in accordance with the agreement with the Bank.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 10: ACCUMULATED UNPAID VACATION AND SICK LEAVE**

On retirement or death of certain employees, the School pays any accrued sick leave and vacation in a lump sum to such employee or beneficiary. The accrued sick leave and unpaid vacation at June 30, 2004 are \$38,200 and \$40,607, respectively. The accrued sick leave and unpaid vacation at June 30, 2003 were \$29,570 and \$36,096, respectively.

**NOTE 11: RETIREMENT PLAN**

The School's employees participate in the Teachers Insurance and Annuity Association and College Retirement Equities Fund Retirement Plan (TIAA-CREF). The School and the employee each contribute 5% of the employee's gross earnings during the employee's first three years of participation in the plan. After three years, the School's contribution increases to 10% of the employee's gross earnings and the employee's contribution remains at 5%. The total payroll and the covered payroll for the 2003-04 school year are \$4,795,062 and \$4,369,072, respectively. During the 2003-04 school year, the School's share of contributions to the covered employees' individual retirement contracts totaled \$382,792. The total payroll and covered payroll for the 2002-03 school year were \$4,650,899 and \$4,226,938, respectively. The School's share of contributions to the covered employees' individual retirement contracts for the 2002-03 year totaled \$362,941.

**NOTE 12: LEASES**

**Operating Leases**

The School leases two electric vehicles. The total operating lease payments was \$7,696 and \$5,375 for the year ended June 30, 2004 and June 30, 2003, respectively. The amount of the future lease payments are estimated as follows:

<u>Fiscal Year</u>	<u>Amounts</u>
2004-2005	7,696
2005-2006	3,848

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**Note 13: Split Interest Agreements**

The School administers a pooled income fund and three charitable remainder trusts; net assets in these trusts are a total of \$1,023,078 and are reported at fair market value in the Statement of Financial Position. It is anticipated that the School will realize a substantial portion of these assets and, therefore, no liability for the present value of future payments to the donors has been recorded.

The School is the remainder beneficiary of two trusts administered by third party trustees. Based on donor life expectancies and the use of a 4.6% discount rate, the present value of future benefits is estimated to be \$963,398, which is reported as a pledge receivable on the Statement of Position as of June 30, 2004.

New split interest gifts this year were a total of \$184,204. The net increase in valuation of all split interest gifts was a total of \$51,084.

**Note 14: Commitments**

The School has made future capital investment commitments of \$5,947,000 as of year-end. The composition of these future investments is as follows and will be funded by available cash resources:

Debt and Equity Securities Limited Partnerships	\$4,660,000
Venture Capital Limited Partnerships	<u>1,287,000</u>
	<u>\$5,947,000</u>

**Note 15: Subsequent Event**

*Series 2004 Bonds*

In the fall of 2004, the School plans to issue up to \$20,000,000 of Series 2004 Bonds through the Association of Bay Area Governments Finance Authority for Nonprofit Corporations. The proceeds from the financing have been or will be used to fund the construction, equipping, and furnishing of two residence halls, a performing arts building, a student union building, a playing field, two faculty residences, and a new barn complex. The bonds are payable in interest-only monthly installments for the first 5 years and to

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

maturity in 2034. Principal is to be paid annually beginning September 1, 2009 through 2034.

The bonds are subject to variable rates of interest. The School entered into an interest swap agreement with a financial institution in June 2004. The purpose of this agreement is to swap the variable rate on \$15,000,000 of the debt for a fixed rate. The swap goes into effect in October 2005.

**THE THACHER SCHOOL, INC.**

**OJAI, CALIFORNIA**

**ANNUAL REPORT**

**FISCAL YEAR 2002 - 2003**

**THE THACHER SCHOOL, INC.**  
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**THE THACHER SCHOOL, INC.**  
**OJAI, CALIFORNIA**  
**OFFICERS OF THE CORPORATION AS OF JUNE 30, 2003**

<u>MEMBER</u>	<u>OFFICE</u>
Marshall C. Milligan	President
Lauren B. Dachs	Vice President
Justin M. Faggioli	Vice President
Martha W. Hammer	Vice President
Belinda Hanson	Secretary
Richard M. Salem	Treasurer
Thomas M. Perkins	Assistant Treasurer
Michael K. Mulligan	Head of School
Roger D. Klausler	Assistant Secretary
William E. Prather	Assistant Treasurer

**THE THACHER SCHOOL, INC.**  
**OJAI, CALIFORNIA**  
**MEMBERS OF THE BOARD OF TRUSTEES AS OF JUNE 30, 2003**

<u>MEMBERS</u>	<u>LENGTH OF TERM</u>	<u>TERM EXPIRES IN JUNE</u>
Carolyn M. Alm	3 years	2003
Javier F. Arango	3 years	2004
Brian J. Back	1 year	2003
Kathleen J. Back	1 year	2003
Jeffrey C. Barbakow	3 years	2005
Margaret Hooper Blair	3 years	2003
David K. Chao	3 years	2004
Charles H. Clark	3 years	2004
Lauren B. Dachs	3 years	2003
Justin M. Faggioli	3 years	2004
Elizabeth Broome Grether	3 years	2005
Martha W. Hammer	3 years	2004
Belinda Hanson	3 years	2003
Cecilia Healy Herbert	3 years	2005
John G. Lewis, Jr.	3 years	2005
Thomas D. McCloskey, Jr.	3 years	2005
Christine Carter	3 years	2003
Marshall C. Milligan	5 years	2003
Lance R. Odden	3 years	2003
Thomas M. Perkins	3 years	2003
Cecilia B. Rauch	3 years	2005
Richard M. Salem	3 years	2003
Andrew R. Shakman	3 years	2004
Linda Davis Taylor	3 years	2004
Terdema L. Ussery	3 years	2004
David W. Van Horne	3 years	2003
Jacob C.Y. Wu	3 years	2005
Paul L. Yelder	3 years	2004

EX-OFFICIO MEMBERS

Mrs. Robert H. Adams, Honorary Trustee  
Hon. Jerome H. Berenson, President Emeritus (1973-1978)  
Reid W. Dennis, President Emeritus (1991-1993)  
E. Randolph Labbe, President Emeritus (1993-1998)  
Arthur A. Milligan, President Emeritus (1970-1973)  
Herbert C. Moffitt, M.D., Honorary Trustee  
Samuel A. Pond, Honorary Trustee  
Kenneth O. Rhodes, President Emeritus (1982-1987)

**THE THACHER SCHOOL, INC.**  
OJAI, CALIFORNIA  
ADMINISTRATION AS OF JUNE 30, 2003

<u>MEMBER</u>	<u>POSITION</u>
Michael K. Mulligan	Head of School
Peter G. Robinson	Assistant Head of School for Internal Affairs, Director of Studies, and Dean of Faculty
Monique L. DeVane	Assistant Head of School for External Affairs, Director of Admission and Financial Aid
Christina K. Mazzola	Dean of Students
Maria Morales-Kent	Director of college Counseling
William E. Prather	Business Manager, Assistant Treasurer of Corporation
Jane D. McCarthy	Director of External Affairs and Assistant to the Head of School

# JACOBS & JACOBS

ACCOUNTANCY CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS  
ESTABLISHED 1944

JOHN JACOBS  
JEFFREY A. BORENSTEIN  
GREGG W. BURT  
KATHLEEN M. INMAN  
PAUL THOMAS  
JASON E. CAVENDER

GODFREY JACOBS  
1912-1983

ANZAC JACOBS  
1919-1974

OJAI, CALIFORNIA 93023  
603 WEST OJAI AVE., STE. A  
TELEPHONE (805) 646-4321  
FAX (805) 646-6248

SIMI VALLEY, CALIFORNIA 93065  
1200 EAST LOS ANGELES AVE., STE. 204  
TELEPHONE (805) 522-3650  
FAX (805) 522-0931

THOUSAND OAKS, CALIFORNIA 91360  
455 EAST THOUSAND OAKS BLVD., STE. 101  
TELEPHONE (805) 497-4007  
FAX (805) 497-0849

## INDEPENDENT AUDITOR'S REPORT

REPLY TO:

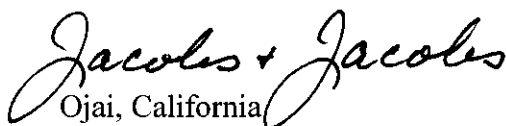
To the Board of Trustees of  
The Thacher School, Inc.

We have audited the accompanying statement of financial position of The Thacher School, Inc. (a nonprofit organization) as of June 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of The Thacher School, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Thacher School, Inc. as of June 30, 2003 and 2002 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 21-25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Ojai, California  
August 20, 2003

**The Thacher School, Inc.**  
**Statement of Financial Position**  
**June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$9,963,816	\$12,426,617
Marketable Securities- At Market Value (Notes 1 & 2)	44,277,011	37,025,963
Accounts Receivable - Net (Note 5)	185,705	53,634
Unconditional Promise to Give (Note 3)	10,504,954	11,138,304
Notes Receivable - Net (Notes 4 and 5)	0	6,176
Prepaid Expenses	298,423	248,304
Inventory & Supplies (Note 1)	135,840	140,082
Land & Buildings (Notes 1 & 6)	25,399,740	23,953,376
Furniture & Equipment (Notes 1 & 6)	1,580,113	1,790,483
Projects in Process (Notes 1 & 6)	1,431,273	1,932,770
Less: Accumulated Depreciation	<u>(10,251,077)</u>	<u>(9,664,313)</u>
<b>TOTAL ASSETS</b>	<u><b>\$83,525,798</b></u>	<u><b>\$79,051,396</b></u>
 <b>LIABILITIES</b>		
Line of Credit (Note 9)	\$0	\$0
Accounts Payable	278,931	241,666
Accrued Liabilities	96,622	108,577
Deferred Revenue (Note 1)	<u>507,401</u>	<u>496,201</u>
<b>Total Liabilities</b>	<u><b>882,954</b></u>	<u><b>846,444</b></u>
 <b>NET ASSETS</b>		
Unrestricted:		
Investment in Fixed Assets	18,160,049	18,012,316
Unrestricted Assets	<u>30,931,688</u>	<u>31,034,262</u>
	49,091,737	49,046,578
Temporarily Restricted (Note 7)	7,608,341	4,333,364
Permanently Restricted (Note 8)	<u>25,942,766</u>	<u>24,825,010</u>
<b>Total Net Assets</b>	<u><b>82,642,844</b></u>	<u><b>78,204,952</b></u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$83,525,798</b></u>	<u><b>\$79,051,396</b></u>

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
**Statement of Activities**  
For the Year Ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES:</b>				
Tuition and Fees	\$6,668,271			\$6,668,271
Student Services and Summer Camps	363,680			363,680
Other	45,012			45,012
Donations	1,448,516	\$4,503,851	\$907,303	6,859,670
Interest Income	341,038	5,084	\$26,336	372,458
Dividend Income	400,882	8,197	\$1,706	410,785
Net Realized and Unrealized Gain or (Loss)				
On Investments	1,795,575	52,597	\$81,711	1,929,883
Net Assets Released from Donor Restrictions (Note 7)	1,536,861	(1,714,861)	178,000	0
Total Revenues	<u>12,599,835</u>	<u>2,854,868</u>	<u>1,195,056</u>	<u>16,649,759</u>
<b>EXPENSES:</b>				
Academic Programs	4,128,894			4,128,894
Auxiliary Programs	3,998,612			3,998,612
Student Activities	168,086			168,086
General and Administrative	2,192,148			2,192,148
Fundraising	1,073,547			1,073,547
Investment Counselor Fees	173,656	174	1,079	174,909
Distributions to Donors		11,394	32,502	43,896
Provision for Uncollectible Pledge Receivables	(8,011)	95,783	(52,046)	35,726
Net Present Value Adjustment		(286,377)	(177,720)	(464,097)
Interest Expense				0
Depreciation Expense	860,146			860,146
Total Expenses	<u>12,587,078</u>	<u>(179,026)</u>	<u>(196,185)</u>	<u>12,211,867</u>
Changes in Net Assets	12,757	3,033,894	1,391,241	4,437,892
Net Assets as of Beginning of Year	49,046,578	4,333,364	24,825,010	78,204,952
Restate Restrictions on Net Assets (Note 1)	32,402	241,083	(273,485)	
Net Assets as of End of Year	<u>\$49,091,737</u>	<u>\$7,608,341</u>	<u>\$25,942,766</u>	<u>\$82,642,844</u>

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
Statement of Activities  
For the Year Ended June 30, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES:</b>				
Tuition and Fees	\$6,307,136			\$6,307,136
Student Services and Summer Camps	933,222			933,222
Other	44,431			44,431
Donations	1,411,291	\$4,233,833	\$506,952	6,152,076
Interest Income	478,543	5,666	\$27,176	511,385
Dividend Income	271,792	8,352	\$2,010	282,154
Net Realized and Unrealized Gain or (Loss)				
On Investments	(9,242,411)	(84,343)	(\$38,479)	(9,365,233)
Net Assets Released from Donor Restrictions (Note 7)	5,064,597	(5,064,597)		
Total Revenues	5,268,601	(901,089)	497,659	4,865,171
<b>EXPENSES:</b>				
Academic Programs	3,691,757			3,691,757
Auxiliary Programs	4,245,809			4,245,809
Student Activities	131,255			131,255
General and Administrative	1,958,877			1,958,877
Fundraising	1,034,789			1,034,789
Investment Counselor Fees	180,493	172	1,187	181,852
Distributions to Donors		11,484	31,377	42,861
Provision for Uncollectible Pledge Receivables	108,693	70,935	30,740	210,368
Net Present Value Adjustment	(288,809)	170,148	(304,225)	(422,886)
Interest Expense	69			69
Depreciation Expense	847,567			847,567
Total Expenses	11,910,500	252,739	(240,921)	11,922,318
Changes in Net Assets	(6,641,899)	(1,153,828)	738,580	(7,057,147)
Net Assets as of Beginning of Year	55,688,477	5,487,192	24,086,430	85,262,099
Net Assets as of End of Year	\$49,046,578	\$4,333,364	\$24,825,010	\$78,204,952

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
**Statement of Cash Flows**  
For the Years Ended June 30, 2003 and 2002

(Indirect Method)	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net income (Loss)	\$4,437,892	(\$7,057,147)
Adjustments to reconcile net income to net cash used in/provided by operating activities:		
Depreciation	860,146	847,567
Adjust the Provision for loss on receivables	(8,011)	64,834
Provision for loss on pledges	35,726	210,368
(Gain) Loss realized and unrealized on securities	(1,929,883)	9,365,233
Loss on property disposed	3,612	1,469
Permanently Restricted Gifts	(1,525,217)	(385,947)
(Increase) in accounts receivable	(132,071)	(116,433)
(Increase) Decrease in unconditional promises to give	597,624	(580,121)
Decrease in student loans	14,187	51,048
Decrease in inventory	4,242	11,151
(Increase) Decrease in prepaids	(50,119)	21,832
Increase in accounts payable	25,310	87,631
Increase (Decrease) in deferred revenues	11,200	(12,582)
Total adjustments	<u>(\$2,093,254)</u>	<u>\$9,566,050</u>
Net cash provided provided by operating activities	\$2,344,638	\$2,508,903
Cash Flows from investing activities:		
Purchase of investment securities	(13,943,857)	(22,993,871)
Proceeds from sale of investments	8,622,691	18,104,254
Acquisition of property, plant & equipment	(1,011,490)	(1,709,829)
Net cash used in investing activities	<u>(\$6,332,656)</u>	<u>(\$6,599,446)</u>
Cash flows from financing activities:		
Principal payment on line of credit	0	0
Proceeds from Permanently Restricted Gifts	1,525,217	385,947
Net cash received (used) in financing activities	<u>\$1,525,217</u>	<u>\$385,947</u>
Net increase in cash & cash equivalents	(\$2,462,801)	(\$3,704,596)
Cash & cash equivalents, beginning of year	<u>12,426,617</u>	<u>16,131,213</u>
Cash & cash equivalents, end of year	<u>\$9,963,816</u>	<u>\$12,426,617</u>

The accompanying notes are an integral part of these financial statements.

**The Thacher School, Inc.**  
**Statement of Cash Flows (Continued)**  
**For the Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Partial statement of cash flows (Direct Method)		
Cash flows from operating activities:		
Cash received from tuition, gifts & grants	\$12,938,082	\$12,919,663
Cash paid for program & support services	(11,376,687)	(10,889,234)
Interest & dividend income	783,243	478,543
Interest paid	0	(69)
Net cash provided by operating activities	<u>\$2,344,638</u>	<u>\$2,508,903</u>

The accompanying notes are an integral part of these financial statements.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities**

The Thacher School, Inc. is a private, independent school which is governed by a Board of Trustees, a twenty-seven member group. The School receives funding from student tuitions, annual givings (donations), endowment distributions, and private grants and gifts. The Board has decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

**Public Support and Revenue**

Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. The majority of the promises to give are received from alumni and other contributors as a result of the underground utilities project and the Capital campaign. An allowance for uncollectible promises is provided, when needed, based on management's evaluation of potential uncollectible promises receivable at year end.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment contributions are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Contributions of donated noncash assets are recorded at their fair values in the period received.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. . No amounts have been reflected in the statements for donated services because they did not meet the criteria for recognition under SFAS No. 116.

**Basis of Accounting**

The School prepares its financial statements in accordance with generally accepted accounting principles. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

**Investments**

Investments in marketable securities are stated at market value in the accompanying Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Real estate investments and equity securities without readily determinable fair values are stated at cost.

**Investment Income and Gains**

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in-first-out method.

**Buildings, Equipment, Improvements, and Depreciation**

All acquisitions of property and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	30 - 40 years
Improvements	10 - 20 years
Equipment	5 - 10 years

**Restatement of Net Asset Restrictions**

The restrictions on net assets as of the beginning of the fiscal year have been restated on the Statement of Activities. This restatement is due to a reallocation of the provision for uncollectable pledge receivables and the net present value adjustment of such pledges. This reallocation does not change the total beginning net assets.

**Donated Property and Equipment**

Donated property and equipment are recorded as contributions at their estimated values and as an increase in the unrestricted net assets. Contributions of cash that must be used to acquire property and equipment are reported as temporary restricted net assets. The School reclassifies the restricted contribution to unrestricted net assets when the property or equipment is acquired.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Deferred Revenue**

Deferred revenue in the unrestricted fund results from the School recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school term are deferred until the instruction commences.

**Income Taxes**

The School is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3). Accordingly, no provision for federal income taxes has been made.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 2: CASH AND INVESTMENTS**

The Cash and Marketable Securities, which are stated at market value at June 30, 2003 and 2002, consist of the following:

	<u>CURRENT YEAR</u>		<u>PRIOR YEAR</u>	
	Carrying Amount <u>6/30/03</u>	Market Value <u>6/30/03</u>	Carrying Amount <u>6/30/02</u>	Market Value <u>6/30/02</u>
<u>CASH</u>				
Cash on Hand	\$ 5,900	\$ 5,900	\$ 5,400	\$ 5,400
Demand Accounts	2,174,800	2,174,800	3,013,859	3,013,859
Pooled Investments				
Cash Funds	<u>7,783,116</u>	<u>7,783,116</u>	<u>9,407,358</u>	<u>9,407,358</u>
Totals	<u>\$ 9,963,816</u>	<u>\$ 9,963,816</u>	<u>\$12,426,617</u>	<u>\$12,426,617</u>
 <u>INVESTMENTS</u>				
Stocks	\$15,585,587	\$17,623,281	\$21,819,052	\$20,104,850
Bonds and Notes	1,127,646	1,330,584	3,410,900	3,353,495
Real Estate				
Investment Trusts	4,716,560	5,209,558	4,391,560	4,600,286
Pooled Investments				
Mutual Funds	<u>20,974,492</u>	<u>20,113,588</u>	<u>10,988,057</u>	<u>8,967,332</u>
TOTALS	<u>\$42,404,285</u>	<u>\$44,277,011</u>	<u>\$40,609,569</u>	<u>\$37,025,963</u>

Demand accounts are cash balances invested in several financial institutions. The Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) insures accounts at each institution up to \$100,000. At June 30, 2003 the organization's uninsured cash balance totaled \$2,209,318. The pooled investment cash funds of \$7,783,116 are secured by a portfolio of short-term assets and are managed by several professional investment managers. The investments in stocks, bonds, and notes are acquired in the School's name and are held by either a trust department or broker.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 3: PROMISES TO GIVE**

Unconditional promises to give at June 30, 2003, are as follows:

Capital Campaign	\$10,282,152
Dorm Projects	500,000
Charitable Remainder Trusts	<u>920,426</u>
Total unconditional promises to give	<u>\$11,702,578</u>
Receivable in less than one year	\$4,178,724
Receivable in one to five years	6,580,094
Receivable in more than five years	<u>943,760</u>
Total unconditional promises to give	11,702,578
Less discounts to net present value	(573,016)
Less allowance for uncollectible promises	<u>(624,608)</u>
Net unconditional promises to give at June 30, 2003	<u>\$10,504,954</u>

Promises to give which are receivable in more than one year are discounted at 3.6% per annum.

**NOTE 4: NOTES RECEIVABLE - STUDENTS**

The School has historically made student loans ranging from \$500 to \$3,000 per year. Interest accrues at variable rates. Students are required to make 32 quarterly payments after their departure from the School. The first 16 quarterly payments are for interest only. The School received payments of principal of \$16,198 and \$23,078 for the fiscal years 2002-03 and 2001-02, respectively. There were no new student loans for the past two fiscal years.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 5: ALLOWANCE FOR UNCOLLECTIBLES**

Accounts receivable of \$271,548 and notes receivable (student loans) of \$57,750 are shown net of allowance for uncollectibles. The allowances for uncollectible receivables and provision for bad debt expense are as follows:

	<u>Parent Receivables</u>	<u>Student Loans</u>
Allowance for uncollectibles, July 1, 2002	\$75,401	\$65,761
Provision for bad debt expense	13,764	(8,011)
Write-off of uncollectible accounts	<u>(3,322)</u>	<u>-0-</u>
Allowance for uncollectibles, June 30, 2003	<u>\$85,843</u>	<u>\$57,750</u>

Management uses outstanding balances in excess of 120 days in determining an allowance for uncollectible parent receivables and maintains an allowance for uncollectible student loans for all nonpaying loans.

**NOTE 6: PROPERTY, EQUIPMENT AND IMPROVEMENTS**

The following is a summary of the changes in the Fixed Assets:

	<u>June 30, 2002</u>	<u>Additions</u>	<u>Transfers and Deletions</u>	<u>June 30, 2003</u>
Land & Buildings	\$23,953,376	\$ 22,634	\$ 1,423,730	\$25,399,740
Furniture & Equipment	1,790,484	66,623	(276,994)	1,580,113
Projects in Process	<u>1,932,770</u>	<u>922,233</u>	<u>(1,423,730)</u>	<u>1,431,273</u>
	27,676,630	1,011,490	(276,994)	28,411,126
Accumulated Depreciation	<u>(9,664,313)</u>	<u>(860,146)</u>	<u>273,382</u>	<u>(10,251,077)</u>
	<u>\$18,012,317</u>	<u>\$ 151,344</u>	<u>\$ (3,612)</u>	<u>\$18,160,049</u>

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 7: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods:

Periods after June 30, 2003	\$1,207,618
Program Activities	638,414
Future Projects	<u>5,762,309</u>
Total temporarily restricted net assets	<u>\$7,608,341</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose restriction accomplished:

Performing Arts	\$ 858,657
Student Union/Commons	398,995
Donor Restrictions Accomplished-Other	208,981
Designated to the Permanent Endowment	178,000
Gifts designated for operations by donor	<u>70,228</u>

Total restrictions released	<u>\$1,714,861</u>
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**NOTE 8: PERMANENTLY RESTRICTED NET ASSETS**

Net assets of \$25,942,766 and \$24,825,010 were permanently restricted for Endowment purposes at June 30, 2003 and June 30, 2002, respectively.

**NOTE 9: LINE OF CREDIT**

The School has a commitment from Bank of America for a revolving line of credit available through May 31, 2004. The amount of the line of credit is \$2,000,000. The interest rate is the Bank's prime rate plus 0.25 percentage point. The School has to maintain total unrestricted net assets equal to at least \$40,000,000 in accordance with the agreement with the Bank.

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**NOTE 10: ACCUMULATED UNPAID VACATION AND SICK LEAVE**

On retirement or death of certain employees, the School pays any accrued sick leave and vacation in a lump sum to such employee or beneficiary. The accrued sick leave and unpaid vacation at June 30, 2003 are \$29,570 and \$36,096, respectively. The accrued sick leave and unpaid vacation at June 30, 2002 were \$27,672 and \$38,657, respectively.

**NOTE 11: RETIREMENT PLAN**

The School's employees participate in the Teachers Insurance and Annuity Association and College Retirement Equities Fund Retirement Plan (TIAA-CREF). The School and the employee each contribute 5% of the employee's gross earnings during the employee's first three years of participation in the plan. After three years, the School's contribution increases to 10% of the employee's gross earnings and the employee's contribution remains at 5%. The total payroll and the covered payroll for the 2002-03 school year are \$4,650,899 and \$4,226,938, respectively. During the 2002-03 school year, the School's share of contributions to the covered employees' individual retirement contracts totaled \$362,941. The total payroll and covered payroll for the 2001-02 school year were \$4,400,411 and \$3,995,017, respectively. The School's share of contributions to the covered employees' individual retirement contracts for the 2001-02 year totaled \$330,948.

**NOTE 12: LEASES**

**Operating Leases**

The School leases two electric vehicles. The total operating lease payments was \$5,375 and \$5,528 for the year ended June 30, 2003 and June 30, 2002, respectively. The amount of the future lease payments are estimated as follows:

<u>Fiscal Year</u>	<u>Amounts</u>
2003-2004	7,696
2004-2005	7,696
2005-2006	3,848

**THE THACHER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

**Note 13: Split Interest Agreements**

The School administers a pooled income fund and two charitable remainder trusts; net assets in these trusts are a total of \$885,076 and are reported at fair market value in the Statement of Financial Position. It is anticipated that the School will realize a substantial portion of these assets and, therefore, no liability for the present value of future payments to the donors has been recorded.

The School is the remainder beneficiary of two trusts administered by third party trustees. Based on donor life expectancies and the use of a 3.8% discount rate, the present value of future benefits is estimated to be \$920,426, which is reported as a pledge receivable on the Statement of Position as of June 30, 2003.

New split interest gifts this year were a total of \$20,563. The net increase in valuation of all split interest gifts was a total of \$115,726.

## **SUPPLEMENTARY INFORMATION**

**The Thacher School, Inc.**  
Combined Balance Sheet  
June 30, 2003

	Operating Fund		Endowment Fund	Pooled Income Fund	Charitable Remainder Trust Fund	Plant Fund		Totals	
	Unrestricted	Restricted				Unexpended	Invested	(Memorandum Only)	
2002								2003	2002
<b>ASSETS:</b>									
Cash and Cash Equivalents	\$2,323,850		\$4,198,133	\$198,270	\$21,483	\$3,222,080		\$9,963,816	\$12,426,617
Marketable Securities- At Cost (Market Value \$44,277,011)	9,026								
Accounts Receivable - Net	185,705		41,776,158	393,102	225,999			42,404,285	40,609,569
Notes Receivable - Net		0						185,705	53,634
Pledges Receivable - Net	9,584,528				920,426			0	6,176
Prepaid Expenses	298,423							10,504,954	11,138,304
Inventory & Supplies	135,840							298,423	248,304
Due From Other Funds		804,093	5,958,802	221		3,484,741		135,840	140,082
Land and Buildings							25,399,740	10,247,857	11,839,478
Furniture & Equipment							1,580,113	25,399,740	23,953,376
Projects in Process							1,431,273	1,580,113	1,790,483
Less: Accumulated Depreciation							(10,251,077)	1,431,273	1,932,770
								(10,251,077)	(9,664,313)
<b>TOTAL ASSETS</b>	<b>\$12,537,372</b>	<b>\$804,093</b>	<b>\$51,933,093</b>	<b>\$591,593</b>	<b>\$1,167,908</b>	<b>\$6,706,821</b>	<b>\$18,160,049</b>	<b>\$91,900,929</b>	<b>\$94,474,480</b>
<b>LIABILITIES &amp; FUND EQUITY:</b>									
Line of Credit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accounts Payable	278,931							278,931	241,666
Accrued Liabilities	93,333	3,289						96,622	108,577
Due to Other Funds	10,247,857							10,247,857	11,839,478
Deferred Revenue	520,899	638,414						1,159,313	1,337,435
<b>Total Liabilities</b>	<b>\$11,141,020</b>	<b>\$641,703</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$11,782,723</b>	<b>\$13,527,156</b>
Investment in Fixed Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$18,160,049	\$18,160,049	\$18,012,316
Fund Balances	1,396,352	162,390	51,933,093	591,593	1,167,908	6,706,821		61,958,157	62,935,008
<b>Total Fund Equity</b>	<b>\$1,396,352</b>	<b>\$162,390</b>	<b>\$51,933,093</b>	<b>\$591,593</b>	<b>\$1,167,908</b>	<b>\$6,706,821</b>	<b>\$18,160,049</b>	<b>\$80,118,206</b>	<b>\$80,947,324</b>
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$12,537,372</b>	<b>\$804,093</b>	<b>\$51,933,093</b>	<b>\$591,593</b>	<b>\$1,167,908</b>	<b>\$6,706,821</b>	<b>\$18,160,049</b>	<b>\$91,900,929</b>	<b>\$94,474,480</b>

**The Thacher School Inc.**  
**Combined Statement of Revenues, Expenses & Changes in Fund Balances**  
**For the Year Ended June 30, 2003**

	Operating Fund		Endowment Fund	Pooled Income Fund	Charitable Remainder Trust Fund	Plant Fund	Totals	
	Unrestricted	Restricted					(Memorandum Only) 2003	2002
<b>REVENUES:</b>								
Operating Revenues	\$11,766,296						\$11,766,296	\$11,219,573
Gifts (Other Than Annual Giving)		159,899	1,064,740	20,563		4,285,045	5,530,247	4,110,782
Interest Income		3,372	307,932	31,420		29,734	372,458	511,385
Dividend Income	37,591		363,291		9,903		410,785	282,154
Net Gain (Loss)							0	0
On Sales of Investments			(3,569,904)	(1,516)	20,098	24,873	(3,526,449)	(2,015,003)
<b>Total Revenues</b>	<b>\$11,803,887</b>	<b>\$163,271</b>	<b>(\$1,833,941)</b>	<b>\$50,467</b>	<b>\$30,001</b>	<b>\$4,339,652</b>	<b>\$14,553,337</b>	<b>\$14,108,891</b>
<b>EXPENSES:</b>								
Operating Expenses	\$11,390,821	\$159,899	\$6,955				\$11,557,675	\$11,073,628
Capital Expenses	89,257					922,233	1,011,490	1,697,219
Investment Counselor Fees			173,656	150	1,103		174,909	181,858
Endowment Distribution			3,170,589				3,170,589	2,522,000
Distributions to Donors				33,338	10,558		43,896	42,861
Provision for Uncollectible Pledges		(8,011)	43,737				35,726	210,368
Net Present Value Adjustment			(464,097)				(464,097)	(422,886)
Interest Expense							0	69
<b>Total Expenses</b>	<b>\$11,480,078</b>	<b>\$151,888</b>	<b>\$2,930,840</b>	<b>\$33,488</b>	<b>\$11,661</b>	<b>\$922,233</b>	<b>\$15,530,188</b>	<b>\$15,305,117</b>
<b>Excess of Revenues Over (Under)</b>								
Expenses Before Transfers	\$323,809	\$11,383	(\$4,764,781)	\$16,979	\$18,340	\$3,417,419	(\$976,851)	(\$1,196,226)
Transfers In						258,475	258,475	659,811
Transfers Out			(258,475)				(258,475)	(659,811)
<b>Excess of Revenues Over (Under)</b>								
Expenses After Transfers	\$323,809	\$11,383	(\$5,023,256)	\$16,979	\$18,340	\$3,675,894	(\$976,851)	(\$1,196,226)
<b>Beginning Fund Balance 6/30/02</b>	<b>1,072,543</b>	<b>151,007</b>	<b>56,956,349</b>	<b>574,614</b>	<b>1,149,568</b>	<b>3,030,927</b>	<b>62,935,008</b>	<b>64,131,234</b>
<b>Ending Fund Balance 6/30/03</b>	<b>\$1,396,352</b>	<b>\$162,390</b>	<b>\$51,933,093</b>	<b>\$591,593</b>	<b>\$1,167,908</b>	<b>\$6,706,821</b>	<b>\$61,958,157</b>	<b>\$62,935,008</b>

**THE THACHER SCHOOL, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE -**  
**OPERATING FUND**  
**FOR THE TWO YEARS ENDED JUNE 30, 2003 & 2002**

<u>REVENUES</u>	<u>FISCAL YEAR</u>	
	<u>2002-03</u>	<u>2001-02</u>
Tuition	\$6,653,161	\$6,292,000
Horsekeep	3,790	3,278
Application Fees	15,110	15,135
Student Store and Textbook Store	143,928	154,493
Student Transportation	20,141	31,832
Parents Auction Income	112,159	100,773
Reunion Income	43,625	35,785
Endowment Distribution	3,170,589	2,522,000
Crop Proceeds	18,799	34,049
Interest and Dividend Income	37,591	55,554
Support for Salaries and Programs	93,978	84,875
Annual Giving - Unrestricted	1,354,538	1,326,416
Finance Charges	26,737	20,612
Summer Program Income	29,095	0
Music Lesson Income	18,158	11,981
Study Skills Tutoring	6,590	10,345
Thacher Sierra Wilderness Camp	36,498	30,520
Miscellaneous Income	7,279	12,216
Computer and Internet Access Income	1,125	4,045
Gain/(Loss) on Sale of Horses	10,996	11,603
 TOTAL REVENUES	 \$11,803,887	 \$10,757,512
 EXPENSES		
Instruction	\$3,025,193	\$2,711,526
Horse Program	639,848	629,482
Athletics	83,600	63,260
Library	51,758	43,648
Student Activities	168,086	131,255
Food Service	913,422	880,961
Infirmary	160,136	148,100
Student and Textbook Store	117,995	164,003
Transportation	165,036	159,818
Operation & Maintenance Plant	1,662,060	1,387,778
Plant Improvement & Additions	93,327	90,058
Administration (School Wide)	1,248,493	1,182,208
Admission Office	93,316	96,438
Student Workshop	5,179	5,003
 TOTAL FORWARD	 \$8,427,449	 \$7,693,538

This statement is prepared in accordance with Statement of Position 78-10

**THE THACHER SCHOOL, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE -**  
**OPERATING FUND (CONTINUED)**  
**FOR THE TWO YEARS ENDED JUNE 30, 2003 & 2002**

	FISCAL YEAR	
	<u>2002-03</u>	<u>2001-02</u>
EXPENSES (Continued - Total Forward)	\$8,427,449	\$7,693,538
Alumni and Development	1,073,547	1,034,789
General and Administration	795,398	619,664
Financial Aid Grants	1,031,350	919,837
Special Events and Services	42,907	51,443
Head of School's Contingency Fund	13,260	10,604
Bad Debts Expense	13,764	28,195
Olympus Fund Expense	15,414	11,743
Thacher Sierra Wilderness Program	39,072	48,286
Interest Expense	0	69
Maine Coast Semester	14,000	13,400
Miscellaneous	13,917	8,368
 TOTAL EXPENSES	 \$11,480,078	 \$10,439,936
Excess Revenues Over Expenses Before Transfers	\$323,809	\$317,576
Transfer In		53,629
Transfer Out		(260)
Excess Revenues Over Expenses After Transfers	\$323,809	\$370,945
Unappropriated Fund Balance, Beginning of the Year	1,072,543	701,598
Unappropriated Fund Balance, End of the Year	\$1,396,352	\$1,072,543

This statement is prepared in accordance with Statement of Position 78-10

**The Thacher School, Inc.**  
Reconciliation of Book Net Income and  
Generally Accepted Accounting Principals (GAAP) Net Income  
June 30, 2003

Book Net Income	(\$976,851)
Less Depreciation	(860,146)
Less Loss on Disposal of Assets	(3,612)
Add Back Capital Expenditures	1,011,490
Net Decrease in Operating Restricted Gifts Receivables	(247,928)
Net Increase in Restricted Gifts Receivables	58,606
Net Increase in Unrealized Gains and Decrease in Unrealized Losses	<u>5,456,334</u>
GAAP Net Income	<u><u>\$4,437,893</u></u>

This statement is prepared in accordance with Statement of Position 78-10

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## **APPENDIX C**

### **Summary of Principal Bond Documents**

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## APPENDIX C

### SUMMARY OF PRINCIPAL BOND DOCUMENTS

#### DEFINITIONS

*Except as otherwise defined in this Summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this Summary or in this Official Statement):*

“Alternate Liquidity Facility” means an alternate irrevocable letter of credit or similar Liquidity Facility issued by a commercial bank or savings institution, the terms of which shall be to the extent dictated by the terms of the Bonds, the same as or similar to those of the initial Liquidity Facility, delivered to the Trustee under Section 16 of the Loan Agreement, and meeting the requirements of said Section 16.

“Alternate Rate” means the lesser of the Maximum Rate or The Bond Market Association Municipal Swap Index rate as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. or its successor, or as otherwise determined by The Bond Market Association; provided, however, that if such index is no longer produced by Municipal Market Data, Inc. or its successor, then the rate of a reasonably comparable index selected by the Remarketing Agent.

“Authorized Denomination” means (i) during any Weekly Mode, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000 and (ii) during the Fixed Rate Mode, \$5,000 or any integral multiple thereof.

“Bond Owner” or “Owner” means, with respect to any Bond, the person in whose name such Bond is registered on the Bond registration books of the Trustee.

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which the Office of the Trustee or the offices of the Tender Agent at which the duties under the Indenture are to be performed or the office of the Liquidity Provider at which draws under the Liquidity Facility are presented are authorized or required by law to close or (iii) a day on which the New York Stock Exchange is closed.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the School and related to the original authorization, execution, sale and delivery of the Bonds, including but not limited to: costs of preparation and reproduction of documents; fees and expenses of the Authority, including the Authority's initial bond administration fee; initial fees, expenses and charges of the Trustee (including its counsel); legal fees and charges of bond counsel and the counsel to the School; rating agency fees; charges relating to issuance and delivery of the Liquidity Facility; and any other cost, charge or fee in connection with the original issuance and delivery of the Bonds.

“Date of Delivery” means the date of initial issuance and delivery of the Bonds.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30 or any other twelve-month, or fifty-two week, period selected and designated as the official fiscal year period of the School.

"Fixed Rate Mode" means the Mode during which the Bonds bear interest at the Fixed Rate.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 55 Broad Street, 28th Floor, New York, New York 10004; Mergent/FIS, Inc., 525077 Centre Drive, Suite 150, Charlotte, North Carolina 028217, Attn: Called Bonds Department; and Standard & Poor's Corporation's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or at such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate to the Trustee in writing.

"Interest Payment Date" means (1) with respect to Bonds in a Weekly Mode, the first Business Day of each month; (2) with respect to Bonds in the Fixed Rate Mode, each March 1 and September 1; (3) the Fixed Rate Conversion Date; (4) the respective maturity dates of the Bonds; and (6) with respect to Liquidity Provider Bonds, the dates set forth in the Liquidity Facility upon which interest on the Liquidity Provider Bonds is payable.

"Liquidity Facility" means (i) initially, that certain Standby Bond Purchase Agreement among the Trustee, the School and KeyBank National Association delivered on the Date of Delivery, or any extension or renewal thereof, and (ii) in the event of delivery of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

"Liquidity Provider" means (a) with respect to the Liquidity Facility issued on the Delivery Date, or any extension or renewal thereof, KeyBank National Association, its successors and assigns, and (ii) with respect to any Alternate Liquidity Facility, the issuer of such Alternate Liquidity Facility.

"Mode" means, as the context may require, the Weekly Mode or the Fixed Rate Mode.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the School and the Liquidity Provider.

“Office” means with respect to the Trustee, the office of the Trustee at 700 South Flower Street, Suite 500, Los Angeles, California 90017, Attention: Corporate Trust Department, or such other or additional offices as the Trustee may designate from time to time in written notice to the Authority and the School

“Permitted Investments” means any of the following obligations as and to the extent that such obligations are at the time legal investments under the laws of the State for moneys held under the Indenture and then proposed to be invested therein, as shall be certified by the School to the Trustee:

- (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America, and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;
- (2) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities shall constitute Permitted Investments only if they have been stripped by the agency itself): U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, General Services Administration, U.S. Maritime Administration, U.S. Department of Housing and Urban Development, Government National Mortgage Association, and Federal Housing Administration;
- (3) bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities shall constitute Permitted Investments only if they have been stripped by the agency itself): Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”), Student Loan Marketing Association, Resolution Funding Corporation or Farm Credit System;
- (4) bonds or notes issued by any state or municipality which are rated by S&P and Moody's in one of the two highest rating categories assigned by such agencies;
- (5) repurchase agreements with either a primary dealer on the reporting dealer list of the Federal Reserve or any bank, which, in either case, is rated “A” or better by S&P and Moody's, provided that (a) the term of such repurchase agreement is not greater than thirty days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase

agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) there shall have been delivered to the Trustee and the Authority an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of public funds;

- (6) investment agreements, including guaranteed investment contracts ("GICs") with financial institutions, the debt obligations of which, or insurance companies the claims paying ability of which, are rated in one of the highest two rating categories of the Rating Agency then rating the Bonds, or investment agreements or investment contracts which are guaranteed by financial institutions, the debt obligations of which, or insurance companies, the claims paying ability of which, are rated in one of the highest two rating categories of the Rating Agency then rating the Bonds, provided, that, at all times, the investment agreement or investment contracts, as appropriate, shall allow the School to instruct the Trustee to replace such financial institution or insurance company if such rating falls below the highest rating category or two highest rating categories, as appropriate, described herein or investment agreements which are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) of this definition) with a market value (valued at least quarterly) of no less than the amount of moneys so invested, in each case, the securities in such investment agreements shall be payable at the times and in the amounts as the funds and accounts held by the Trustee are required to be available for its use;
- (7) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2;
- (8) certificates of deposit secured at all times by collateral described in (1) and/or (2) above, issued by commercial banks, savings and loan associations or mutual savings banks relating to collateral held by a third party, and in which collateral the Bond Owners have a perfected first security interest;
- (9) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;
- (10) commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P;

- (11) federal funds, deposit accounts, or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;
- (12) shares in a California common law trust established under Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended; and
- (13) obligations of a bank or other financial institution rated at least "Aa3" by the Rating Agency.

"Project Costs" means costs and expenses incurred or to be incurred by Borrower in connection with the acquisition, construction, improvement, or equipping of the Project, and which are required by GAAP or by the Internal Revenue Code to be treated as capital in nature.

"Purchase Date" shall mean the date on which any Bond is required to be purchased under the optional or mandatory tender provisions of the Indenture.

"Purchase Price" shall mean that amount equal to 100% of the principal amount of any Bond purchased under the Indenture, plus accrued and unpaid interest thereon to but not including the Purchase Date or the date on which such Bond is deemed purchased in accordance with the Indenture.

"Rating Agency" means S&P, so long as such rating agency maintains a rating on the Bonds, and any other nationally recognized securities rating agency designated in writing by the School with the written approval of the Authority and the Liquidity Provider.

"Record Date" means (i) the Business Day immediately preceding the applicable Interest Payment Date during the Weekly Mode and (ii) the fifteenth day of the month prior to an Interest Payment Date during the Fixed Rate Mode.

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion), premium, if any, and interest, payable upon redemption thereof under the provisions of such Bond and the Indenture.

"Remarketing Agent" means George K. Baum & Company, and its successors and assigns.

"Revenues" means all payments received by the Authority or the Trustee from the School (except certain administrative payments paid by the School under the Loan Agreement and any amounts paid by the School under certain indemnification provisions of the Loan Agreement), including, without limiting the generality of the foregoing, Loan Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments of all or any part of the Loan Payments and all interest, profits or other income derived from the investment of any money in any fund or account established under the Indenture (except to the extent such interest, profits or

other income is required to be transferred to or retained in the Rebate Fund established under the Indenture or the Tax Certificate).

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the Authority may indicate in a certificate of the Authority delivered to the Trustee.

“State” means the State of California.

“Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee in accordance with the provisions of the Indenture.

“S&P” means Standard & Poor's Credit Markets Services, a corporation organized and existing under the laws of the state of New York, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, with the approval of the School and the Liquidity Provider.

“Tax Certificate” means the Arbitrage Certificate executed by the Authority and the School dated the date of issuance of the Bonds.

“Weekly Interest Rate” means a variable interest rate on the Bonds established weekly in accordance with the Indenture.

“Weekly Interest Rate Accrual Period” means each period a Weekly Interest Rate is in effect for the Bonds commencing on Thursday and ending on the next Wednesday; provided that the first Weekly Interest Rate Accrual Period begins on the date of original delivery of the Bonds.

“Weekly Mode” means the period during which Weekly Interest Rates are in effect.

## **INDENTURE OF TRUST**

*The following is a brief outline of certain provisions contained in the Indenture, and is not to be considered a full statement pertaining thereof. Certain provisions in the Indenture which are thoroughly described elsewhere in the Official Statement are not repeated in this Summary. Reference is made to the Indenture for the complete text thereof. Copies of the Indenture are available from the Trustee.*

### **Conversion of Bonds to Fixed Interest Rate**

The School, by written direction to the Trustee, the Authority and the Remarketing Agent, may adjust the interest mode for the Bonds from a Weekly Mode to the Fixed Rate Mode. Such direction shall specify the effective date of such Fixed Rate

Mode, which must be an Interest Payment Date on which interest is payable for the Weekly Mode from which the adjustment is to be made, which Interest Payment Date is not earlier than 30 days following the date of receipt by the Trustee of such direction. The Trustee is required to give notice by mail of the conversion to the Fixed Rate Mode to the Owners of the Bonds, with copies to the Liquidity Provider and the School, not less than 15 days prior to the effective date of such Fixed Rate Mode.

If for any reason the Remarketing Agent is unable to remarket all of the Bonds in the Fixed Rate Mode on the date set for such remarketing, the conversion of the Bonds to the Fixed Rate Mode will be cancelled and all of the Bonds will continue to bear interest at a Weekly Interest Rate. In such event, (i) the Tender Agent shall return the Weekly Bonds to their original Owners, (ii) the Weekly Rate shall be determined as if no remarketing to the Fixed Rate Mode had been attempted, and (iii) the Trustee shall notify the Bond Owners of such fact.

### **Costs of Issuance Fund; Project Fund.**

Costs of Issuance Fund. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." Moneys deposited in said fund shall be used to pay Costs of Issuance with respect to the Bonds upon requisitions of the School filed with the Trustee. On March 1, 2005, or upon earlier receipt of a statement of the School that amounts in said fund are no longer required for the payment of such Costs of Issuance, said fund shall be terminated, and any amounts then remaining in said fund will be transferred to the Interest Account of the Revenue Fund or as otherwise directed by the School.

Project Fund. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Project Fund." Amounts in the Project Fund will be used and withdrawn by the Trustee, as directed by requisitions of the School to pay or reimburse the School for Project Costs. Upon receipt of each such requisition of the School, the Trustee, within 3 Business Days, shall pay the amount set forth in such Requisition of the School as directed by the terms thereof out of the Project Fund. The Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

Upon the completion of acquisition, construction, improvement and equipping of the Project, but in any event not later than 30 days following such completion, the Trustee shall be furnished with a certificate of the School, stating to the effect the date of such completion (the "Completion Date") and that (i) the Project has been completed, (ii) payment, or provision therefor, of the cost of the Project has been made except for any costs not then due and payable or the liability for payment of which is being contested or disputed by the School, (iii) no Event of Default exists under the Loan Agreement, and (iv) the acquisition, construction, improvement and equipping of the Project have been completed as of the Completion Date. Thereupon, any balance in the Project Fund not reserved for the payment of the cost of the Project shall be transferred at the written direction of the School into the Revenue Fund and used to pay interest or principal on Bonds as directed by the School or transferred to the School to pay capital expenditures as directed by the School. Upon such transfer, the Project Fund will be closed.

## **Pledge of Revenues and Funds; Revenue Fund.**

Pledge of Revenues. The Authority pledges to secure the payment of the principal of and premium, if any, and interest on the Bonds, and the payments of amounts owing to the Liquidity Provider under the Liquidity Facility, all of the Revenues, and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established under the Indenture (other than the Rebate Fund or remarketing proceeds or the proceeds, of draws under the Liquidity Facility to pay the Purchase Price of Bonds). Said pledge constitutes a lien on and security interest in such assets and will attach, be perfected and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, and to the Liquidity Provider, all of the Revenues and other amounts pledged in the foregoing paragraph and all of the right, title and interest of the Authority in the Loan Agreement (except for any deposits to the Rebate Fund, the right to receive any Administrative Fees and Expenses payable to the Authority, the right of the Authority to receive any indemnification and the right to receive any notices and reports). The Trustee is entitled to collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be paid by the Authority to the Trustee without any set-off whatsoever. The Trustee also will be entitled to take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority assigned to the Trustee and the Liquidity Provider and all of the obligations of the School under the Loan Agreement.

All Revenues, including all Loan payments paid by the School under the Loan Agreement, shall be promptly deposited by the Trustee upon receipt thereof in the Revenue Fund; except that: (1) Revenues comprised of all interest, profits and other income received from the investment of the Project Fund will be retained therein; and (2) all moneys received by the Trustee and required by the Loan Agreement to be deposited in the Redemption Fund will be promptly deposited in such Fund.

Allocation of Revenues. On or before the Business Day immediately preceding each Interest Payment Date and each day on which payments of principal are due on the Bonds (whether at maturity or because of redemption or acceleration), the Trustee shall transfer from the Revenue Fund and deposit or transfer into the following respective accounts within the Revenue Fund which are established under the Indenture, the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such fund or account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

*First:* To the Interest Account, an amount equal to the aggregate amount of interest coming due and payable on the Bonds on such date. Amounts in the Interest Account shall be used to pay interest on the Bonds when due.

*Second:* To the Principal Account, an amount equal to the aggregate amount of principal coming due and payable on the Bonds on such

date, including the aggregate principal amount of the Bonds which are subject to mandatory sinking fund redemption on such date. Amounts in the Principal Account shall be used to pay principal of the Bonds when due, including the aggregate principal amount of the Bonds which are subject to mandatory sinking fund redemption on such date under Section 4.01(c).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred first to the Liquidity Provider to reimburse the Liquidity Provider for any amounts owing to the Liquidity Provider, and then, to the School.

The amounts deposited into the Interest Account and Principal Account shall be withdrawn and applied to the payment of interest and principal with respect to the Bonds on each Interest Payment Date and with respect to interest on each redemption date.

### **Investment of Moneys in Funds**

All moneys in any of the funds and accounts (other than the Rebate Fund or remarketing proceeds or the proceeds of draws under the Liquidity Facility to pay the Purchase Price of Bonds) established under the Indenture will be invested by the Trustee solely in such Permitted Investments as are specified in a request of the School received by the Trustee at least 2 Business Days before the investment date. If the School does not file such a request with the Trustee, the Trustee shall invest to the extent practicable in Permitted Investments constituting money market funds.

Moneys held by the Trustee or the Tender Agent that are remarketing proceeds or draws on the Liquidity Facility shall be held uninvested and not commingled with other moneys.

### **Covenants of the Authority**

Punctual Payment. The Authority will punctually pay, but only out of Revenues and other pledged funds, the principal, premium, if any, and interest to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, according to the true intent and meaning thereof.

Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase of such Bonds or claims for interest or by any other arrangement except with the written consent of the Bond Owners.

Against Encumbrances. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under while any of the Bonds are Outstanding, except the pledge and assignment created by . In addition, if the Authority receives notice from the Trustee or the School of the creation of any such pledge, lien, charge or other encumbrance, the Authority, at the School's sole cost and expense, shall take action to resist such creation of any pledge, lien, charge or other encumbrance upon the request of the Trustee or the School. Subject to this limitation, the Authority expressly reserves the right to enter into

one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Tax Covenants; Rebate Fund. The Authority covenants that not to take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Tax Code. Without limiting the generality of the foregoing, the Authority covenants that it will comply with the requirements of the Tax Certificate. This covenant survives the payment in full or the defeasance of the Bonds.

If at any time the Authority is of the opinion that for purposes of this provision it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority shall so instruct the Trustee and the School in a request of the Authority accompanied by a supporting Opinion of Bond Counsel, and the Trustee will take such action as may be directed by the School.

If the Authority provides to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Indenture and the Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent

Covenants as to Loan Agreement. The Trustee will enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of the rights of the Authority under the Loan Agreement as assigned to the Trustee. The Authority will not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Liquidity Provider (so long as the Liquidity Facility is outstanding and the Liquidity Provider is not wrongfully dishonoring any properly presented and conforming drawings thereunder or any amounts for reimbursement of draws under the Liquidity Facility remain owing to the Liquidity Provider) and the Trustee. The Trustee shall mail a copy of such amendment as executed to the Liquidity Provider and each Rating Agency then rating the Bonds promptly after execution by the Authority and the School.

## **Events of Default and Remedies of Bond Owners**

Events of Default. The following events are defined as “Events of Default” under the Indenture:

- (a) if default is made in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;
- (b) if default is made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment becomes due and payable;
- (c) if default is made in the due and punctual payment of the Purchase Price of any Bond subject to optional or mandatory tender;

- (d) if default is made by the Authority in the performance or observance of any other of the material covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, is given to the Authority and the School by the Trustee, or to the Authority, the School and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding;
- (e) if an event of default has occurred under and as defined in the Loan Agreement; or
- (6) if an event of default occurs under and as defined in the Liquidity Facility, and the Liquidity Provider has given the Trustee written notice of such occurrence.

Acceleration of Bonds. Upon the occurrence and during the continuance of an Event of Default, unless the principal of all the Bonds has already become due and payable, the Trustee, by notice in writing to the Authority and the School, may and, upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, or at the direction of the Liquidity Provider, shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding. Upon declaration of acceleration of the Bonds, interest shall cease to accrue on the Bonds from and after said date of declaration of acceleration.

This provision, however, is subject to the condition that if, at any time while the Bonds are in the Fixed Rate Mode after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, there is deposited with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal at the rate borne by the respective Bonds, and the reasonable fees and expenses by the Trustee (including but not limited to those of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Liquidity Provider Consent. The Trustee may not declare an Event of Default, accelerate the Bonds or exercise any remedy without the written consent of the Liquidity

Provider, so long as the Liquidity Facility is in effect and the Liquidity Provider has not dishonored any properly presented and conforming draw thereunder or any amounts for reimbursement of draws under the Liquidity Facility remain owing to the Liquidity Provider.

Other Remedies. If one or more Events of Default have occurred and are continuing, the Trustee in its discretion may, and upon the written request of the Liquidity Provider (or, if the Liquidity Facility is no longer in effect or is in default under the Liquidity Facility), the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Owners of Bonds or the Liquidity Provider under the Act or under the Loan Agreement or by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted under the Indenture, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture.

Application of Moneys Collected by Trustee. Any moneys collected by the Trustee under the Indenture and any amounts then on deposit in the funds and accounts held thereunder (other than the Rebate Fund or Liquidity Facility Account or remarketing proceeds or the proceeds of draws under the Liquidity Facility to pay the Purchase Price of Bonds) shall be applied in the following order, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any), upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid provided, however, that neither the moneys derived from drawings under the Liquidity Facility, moneys set aside to pay principal and interest on any particular Bonds, nor the proceeds from remarketing of the Bonds shall be used to pay anything other than principal and interest on, Redemption Price or the Purchase Price of, the Bonds:

*First* to the payment of costs and expenses of collection and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and all other expenses and liabilities incurred, and for advances made under the provisions of the Indenture.

*Second* to the payment of interest in default on Bonds (including Liquidity Provider Bonds except under the circumstances provided in the paragraph below) in the order of maturity thereof, and then to the payment of the principal of all Bonds (including Liquidity Provider Bonds except under the circumstances provided in the paragraph below) then due and unpaid; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference.

*Third*, if the Liquidity Facility is outstanding and the Liquidity Provider is wrongfully dishonoring any properly presented and conforming drawings thereunder, or if the Liquidity Facility is no longer outstanding and the Liquidity Provider did not fulfill all of its

obligations thereunder, to the payment of interest in default on Liquidity Provider Bonds in the order of maturity thereof, and then to the payment of the principal of all Liquidity Provider Bonds then due and unpaid; in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference.

*Fourth* to the payment of amounts owing to the Liquidity Provider under the Liquidity Facility.

Whenever all principal of and interest on all Bonds have been paid under the Indenture and all fees, expenses and charges of the Trustee (including without limitation those of its attorneys) have been paid, and all amounts owing to the Liquidity Provider have been paid, any balance remaining in the funds and accounts under the Indenture shall be paid to the School

Powers of Trustee. The Trustee is appointed the agent and attorney-in-fact of the Owners of all Bonds Outstanding under the Indenture for the purpose of filing any claims relating to the Bonds. Subject to the right of the Liquidity Provider to control remedial proceedings under the Indenture, if the Trustee, upon the happening of an Event of Default, has taken some action, by judicial proceedings or otherwise, under its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in aggregate principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Notwithstanding the foregoing, the Liquidity Provider has full control of proceedings provided for in this provision with respect to Liquidity Provider Bonds.

Limitation on Bond Owners' Right to Sue. Subject to the right of the Liquidity Provider to control remedial proceedings under the Indenture, no Owner of any Bond issued under the Indenture has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted to it under the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

## **Amendment of Indenture**

The Authority and the Trustee, from time to time and at any time, may amend the Indenture for one or more of the following purposes; provided that the Liquidity Provider so long as the Liquidity Facility is outstanding and the Liquidity Provider is not wrongfully dishonoring any properly presented and conforming drawings thereunder (or any amounts for reimbursement of draws under the Liquidity Facility remain owing to the Liquidity Provider) shall have consented to such amendment, and the Trustee shall have received an Opinion of Bond Counsel to the effect that such amendment or modification will not cause interest on the Bonds to be included in the gross income of the Owners thereof for federal income tax purposes and a written representation from the Authority or an Opinion of Bond Counsel to the effect that such amendment or modification will not materially and adversely affect the interests of the Owners of the Bonds (which written representation may be based on representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Authority shall make a determination that such amendment or modification will not materially and adversely affect the interests of the Owners of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel):

- (a) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power reserved to or conferred upon the Authority;
- (b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision, contained in the Indenture, or in regard to such matters or questions arising under the Indenture as the Authority may deem necessary or desirable and not inconsistent with the Indenture;
- (c) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;
- (d) in connection with an amendment of the Loan Agreement permitted by the Indenture for the purpose of conforming the terms, conditions and covenants of the Indenture to the corresponding or related provisions of such amended Agreement;
- (e) in connection with delivery of an Alternate Liquidity Facility for the purpose of conforming the terms, conditions and covenants of the Indenture so as to provide Bond Owners the full benefit of the provisions of such Alternate Liquidity Facility; or

- (f) for any other purpose.

Any supplemental indenture authorized by the provisions of the Indenture may be executed by the Authority and the Trustee without the consent of the Owners of any of the Bonds, notwithstanding any of the provisions of the Indenture, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under or otherwise.

The Trustee will mail an executed copy of any supplemental indenture authorized by the Indenture to the Liquidity Provider and each Rating Agency promptly after execution by the Authority and the Trustee. Promptly after the execution by the Authority and the Trustee of any supplemental indenture under the provisions of the Indenture, the Authority shall mail a notice, setting forth in general terms the substance of such supplemental indenture, to the School and the Bond Owners at the addresses shown on the Bond registration books maintained by the Trustee. Any failure of the Authority to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

### **Discharge of Indenture**

Bonds may be paid by the School, on behalf of the Authority, in any of the following ways, provided that the School, on behalf of the Authority, also pays or causes to be paid any other sums payable under the Indenture:

- (1) by paying or causing to be paid the principal of and premium, if any, and interest on the Bonds Outstanding, as and when the same become due and payable;
- (2) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem Bonds Outstanding, but only so long as the Bonds bear interest at the Fixed Rate; or
- (3) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

If the School, on behalf of the Authority, pays all Bonds then Outstanding as provided above and also pays or causes to be paid all other sums payable under the Indenture by the Authority, and any balance remaining in the funds and accounts established under the Indenture have been paid to the Liquidity Provider to the extent any amounts are owing to the Liquidity Provider, then and in that case, at the election of the School, on behalf of the Authority, which election and notwithstanding that any Bonds shall not have been surrendered for payment, and the pledge of Revenues made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Indenture.

## LOAN AGREEMENT

*The following is a brief outline of certain provisions contained in the Loan Agreement between the Authority and the School, and is not to be considered a full statement pertaining thereof. Certain provisions in the Loan Agreement which are thoroughly described elsewhere in the Official Statement are not repeated in this Summary. Reference is made to the Loan Agreement for the complete text thereof. Copies of the Loan Agreement are available from the Trustee.*

### **Maintenance of Corporate Existence**

So long as any of the Bonds are Outstanding, the School will maintain its existence as a nonprofit corporation qualified to do business in the State and as an organization described in Section 501(c)(3) of the Tax Code.

So long as any of the Bonds are Outstanding, the School will not dissolve, sell or otherwise dispose of all or substantially all of its assets or consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it or acquire all or substantially all of the assets of any person or entity. However, the School may, without violating the foregoing covenants, consolidate with or merge into another corporation, or acquire or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation all or substantially all of its assets as an entirety and thereafter dissolve, if:

- (a) The surviving, resulting or transferee corporation, as the case may be:
  - (i) assumes in writing all obligations of the School under the Loan Agreement;
  - (ii) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement; and
  - (iii) is an organization described in Section 501(c)(3) of the Tax Code, or a corresponding provision of the federal income tax laws then in effect.
- (b) The Authority, the Trustee and the Liquidity Provider receive a certificate of the School to the effect that the covenants under the Loan Agreement will be met after such consolidation, merger, sale or transfer;
- (c) The Trustee and the Authority receive an Opinion of Bond Counsel to the effect that under existing law, such merger, consolidation, sale, acquisition or other transfer will not cause interest on the Bonds to be included in gross income for federal income tax purposes under Section 103 of the Tax Code; and
- (d) The Trustee receives the written consent of the Liquidity Provider, together with an acknowledgement that the Liquidity Facility will remain in effect after such consolidation, merger, sale or transfer.

## **Insurance**

So long as any Bonds remain Outstanding, the School will maintain or cause to be maintained with respect to its properties, with insurance companies or by means of self-insurance, insurance of such types, against such risks and in such amounts as are customarily carried by institutions located in the State of California of a nature similar to that of the School and facing insurable risks similar to that of the School, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance in amounts estimated to indemnify the reasonably estimated damage, loss or liability. The School shall at all times also maintain worker's compensation coverage as required by the laws of the State.

At the Request of the Authority or the Trustee, the School shall furnish summaries or other evidence of its insurance coverage.

## **Financial Statements of the School and Reporting of Other Information**

The School, so long as any Bonds remain Outstanding, will furnish the following:

- (a) to the Trustee, audited financial statements of the School certified by an independent public accountant selected by the School as of the end of each of its fiscal years as soon as accepted by its Board of Trustees but in any event within 180 days after the end thereof, and to the Trustee each year such additional copies of its audited annual financial statements as the Trustee shall reasonably request;
- (b) to the Trustee and the Authority, a copy of any notice from a rating agency to the effect that any of the School's debt is being rated or re-rated; and
- (c) promptly upon the request of the Authority or the Trustee, such other information regarding the financial position, results of operations, business or prospects of the School as such party may reasonably request from time to time.

## **Events of Default**

The following are "events of default" under the Loan Agreement, and the terms "events of default" or "default" mean, whenever they are used in the Loan Agreement, any one or more of the following events:

- (a) The School fails to make any Loan Payment by its due date; or
- (b) The School fails to observe and perform any material covenant, condition or agreement on its part to be observed or performed under the Loan Agreement other than as referred to in paragraph (a) above for a period of 30 days after written notice specifying such failure and requesting that it be remedied is given to the School by the Authority or the Trustee; provided, however, if the failure stated

in the notice is correctable but cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the School within the applicable period and diligently pursued until the default is corrected; or

- (c) Any of the representations or warranties of the School made in the Loan Agreement or in any other document, certificate or writing furnished by the School to the Authority in connection with the application for or the negotiation of the Loan Agreement or the issuance of the Bonds was false or incorrect in any material respect when made; or
- (d) The School applies for or consents to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property or admits in writing its inability to pay its debts as they mature; or such a receiver, trustee or similar officer is appointed without the application or consent of the School and such appointment continues undischarged for a period of 90 days; or the School institutes (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding is instituted (by petition, application or otherwise) against the School and remains undischarged for a period of 90 days; or the School makes a general assignment for the benefit of creditors.

### **Remedies on Default**

If any of the Bonds are at the time be Outstanding and unpaid (and provision for the payment thereof has not been made as provided in the Indenture) and any event of default referred to in Section 19 has happened and is continuing the Authority or the Trustee may at the direction of the Liquidity Provider (so long as the Liquidity Facility is in effect and the Liquidity Provider is not in default thereunder), take any one or more of the following remedial steps:

- (a) The Authority or the Trustee may, at its option, declare all installments of Loan Payments to be immediately due and payable, whereupon the same shall become immediately due and payable.
- (b) The Authority or the Trustee may take whatever actions at law or in equity that may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, condition or covenant of the School under the Loan Agreement.

No remedy conferred upon or reserved to the Authority, the Liquidity Provider or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay in exercising or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority, the Liquidity Provider or the Trustee to exercise any remedy reserved to it by the Loan Agreement, it is not necessary to give any notice, other than such notice as is expressly required under the Loan Agreement.

### **Liquidity Facility**

The School agrees to provide a Liquidity Facility for any of the Bonds that are subject to optional or mandatory tender for purchase in order to provide a source of payment, in addition to funds of the School, of the purchase price of Bonds that may be subject to optional or mandatory tender under the Indenture. The School may provide self-liquidity, in lieu of a Liquidity Facility, so long as (i) any Bonds that are subject to tender for purchase, but that are not to be secured by a Liquidity Facility, have been mandatorily tendered for purchase at or prior to the conversion of such Bonds to Bonds without a Liquidity Facility, and have been remarketed, with appropriate disclosure, as Bonds without a Liquidity Facility; and (ii) such Bonds have been rated at the time of such remarketing on the basis of the absence of a separate Liquidity Facility. The School has caused the delivery to the Trustee of an initial Liquidity Facility with respect to the Bonds, which initial Liquidity Facility is provided by KeyBank National Association, as initial Liquidity Facility Provider. If the Bonds are converted to the Fixed Rate Mode, no Liquidity Facility is required after conversion and successful remarketing with respect to the Fixed Interest Rate.

The School has the option, at any time with at least 40 days prior written notice to the Trustee, each Rating Agency, the Remarketing Agent and the Authority, (i) to cause the termination of any Liquidity Facility then in effect; (ii) to allow any Liquidity Facility then in effect to expire or lapse; or (iii) to cause the delivery to the Trustee of a substitute or alternative or additional Liquidity Facility upon such terms and conditions as may be directed by the School. The Trustee shall mail notice of any termination, extension, expiration, lapse or substitution of the Liquidity Facility to the Bond Owners not less than 15 days prior to the effectiveness thereof. Notwithstanding anything in the Loan Agreement or in the Indenture to the contrary, the Loan Agreement may be amended without the consent of any of the Bond Owners in order to implement the provision of any Liquidity Facility if deemed appropriate by the Authority and the School.

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**APPENDIX D**

**Form of Bond Counsel Opinion**

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December 7, 2004

ABAG Finance Authority for Nonprofit Schools  
101 Eighth Street  
Oakland, California 94607-4756

Re: \$20,000,000 ABAG Finance Authority for Nonprofit Corporation  
2004 Variable Rate Demand Revenue Bonds (The Thacher  
School)

Ladies and Gentlemen:

We have acted as bond counsel to ABAG Finance Authority for Nonprofit Corporations (the "Authority") in connection with the issuance by the Authority of \$20,000,000 ABAG Finance Authority for Nonprofit Corporations 2004 Variable Rate Demand Revenue Bonds (The Thacher School) (the "Bonds"), under the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and under an Indenture of Trust dated as of December 1, 2004 (the "Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds have been issued by the Authority to provide funds for the purpose of making a loan of the proceeds thereof to The Thacher School, a California corporation (the "School") to finance the renovation and remodeling of the School's educational facilities. Proceeds of the Bonds will be applied to make a loan to the School under a Loan Agreement dated as of December 1, 2004 (the "Loan Agreement") between the Authority and the School. Initial liquidity support for the Bonds will be provided by a Standby Bond Purchase Agreement to be issued by KeyBank National Association.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and certifications of public officials, the School and others furnished to us, without undertaking to verify the same by independent investigation. In addition, in rendering the following opinion we have relied upon the opinion of Nordman, Cormany, Hair & Compton, that, among other things, the School is as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Tax Code") and the operation of the facilities to be financed from the proceeds of the Bonds will not result in unrelated trades or businesses within the meaning of section 513(a) of the Tax Code and will not adversely affect the status of the School as an organization described in Section 501(c)(3) of the Tax Code.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California with the full power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture has been duly approved by the Authority and constitutes a valid and binding obligation of the Authority enforceable against the Authority. The Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds in accordance with the terms of the Indenture, subject to no prior lien granted under the Bond Law.

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the School comply with all requirements of the Tax Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the School have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

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## **APPENDIX E**

### **Certain Information Regarding KeyBank**

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## **APPENDIX E**

### **General**

KeyBank National Association (the “Bank”) is a national banking association headquartered in Cleveland, Ohio serving markets throughout the United States. The Bank provides customized financial services to individuals, businesses and other institutions.

At September 30, 2004, the Bank had total assets of approximately \$77 billion and total shareholder’s equity of approximately \$5 billion. The Statement of Condition of the Bank at September 30, 2004, is set forth on the following page.

All of the Bank’s capital stock is owned by KeyCorp, a publicly-held multiline financial services company headquartered in Cleveland, Ohio, the common stock of which is registered under the Securities Exchange Act of 1934. At September 30, 2004, the Bank represented approximately 88% of the assets of KeyCorp. KeyCorp files annual and other reports containing audited, consolidated financial and other information with the Securities and Exchange Commission, 450 Fifth Street, NW, Washington, D.C. 20659 and copies of this information may be obtained from the Commission upon payment of copying charges, or examined at the Commission’s offices without charge. THE STANDBY BOND PURCHASE AGREEMENT IS AN UNSECURED OBLIGATION OF THE BANK AND NOT OF KEYCORP. KEYCORP HAS NOT GUARANTEED THE BANK’S OBLIGATION UNDER THE STANDBY BOND PURCHASE AGREEMENT AND IS NOT AND WILL NOT BECOME OBLIGATED IN ANY MANNER WITH RESPECT THERETO.

The Bank will supply, without charge to any person to whom this Official Statement is delivered, a copy of the KeyCorp Form 10-K for the year ended December 31, 2003, as well as copies of subsequently filed annual, quarterly and other reports on Forms 10-K, 10-Q, or 8-K as filed with the Securities and Exchange Commission, by calling our Toll Free Financial Report Request Line 1-888-539-3322.

### **Limitation of Responsibilities**

The Bank is responsible only for the information contained in this Appendix and in the subsection entitled “The Bank” within the section entitled “THE LIQUIDITY FACILITY AND THE BANK”, and did not participate in the preparation of, or in any way verify the information contained in any other part of the Official Statement. Accordingly, the Bank assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of the Official Statement.

**KEYBANK NATIONAL ASSOCIATION**  
**Consolidated Statement of Condition**  
**September 30, 2004**

<b>ASSETS</b>	In thousands
Cash and balances due from depository institutions	\$ 3,178,404
U. S. Treasury securities	5,365
U. S. Government agency obligations	10,005
Mortgage-backed securities	6,674,231
Asset-backed securities	186,598
Securities issued by states and political subdivisions in the U.S.	86,864
Investments in mutual funds and other equity securities with readily determinable fair values	84,485
Other debt securities	38,432
Federal funds sold and securities purchased under agreements to resell	5,283,856
Loans and lease financing receivables, net of unearned income and allowance	54,058,627
Trading assets	1,393,778
Premises and fixed assets	546,285
Other real estate owned	23,957
Customers' liability to this bank on acceptances outstanding	30,556
Intangible assets	660,921
Investments in unconsolidated subsidiaries and associated companies	479,927
Other assets	4,632,670
<b>Total Assets</b>	<b>\$ 77,374,961</b>

<b>LIABILITIES</b>	
Deposits	
In domestic offices	
Individuals, partnerships and corporations	\$ 43,465,535
U. S. Government	19,085
States and political subdivisions in the U.S.	3,430,507
Commercial banks and other depository institutions in the U.S.	211,303
Banks in foreign countries	1,603
In foreign offices, Edge and Agreement subsidiaries, and IBFs	7,363,139
<b>Total Deposits</b>	<b>54,491,172</b>
Federal funds purchased and securities sold under agreements to repurchase	3,009,636
Trading liabilities	1,187,720
Other borrowed money	6,560,295
Bank's liability on acceptances executed and outstanding	30,556
Subordinated notes and debentures	2,806,711
Minority interest in consolidated subsidiaries	2,943,982
Other liabilities	1,207,041
<b>Total Liabilities</b>	<b>72,237,113</b>

<b>EQUITY CAPITAL</b>	
Perpetual preferred stock and related surplus	-
Common stock	50,000
Surplus	526,881
Retained earnings	4,570,722
Accumulated other comprehensive income	(9,755)
<b>Total Equity Capital</b>	<b>5,137,848</b>
<b>Total Liabilities and Equity Capital</b>	<b>\$ 77,374,961</b>

## **APPENDIX F**

### **Summary of Certain Provisions of the Liquidity Facility**

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## APPENDIX F

### SUMMARY OF THE STANDBY BOND PURCHASE AGREEMENT

#### The Initial Liquidity Facility

As more fully described below, a Liquidity Facility will provide liquidity for the purchase of the Tendered Bonds which are subject to purchase pursuant to the Indenture but are not remarketed by the Remarketing Agent. The initial Liquidity Facility is the Standby Bond Purchase Agreement dated as of December 1, 2004 between the School and KeyBank National Association (the “Bank”).

Certain capitalized terms in the following description of the initial Liquidity Facility are defined at the end of such description.

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW UNDER “TERMINATION OF OBLIGATION TO PURCHASE BONDS OR MANDATORY PURCHASE OF BONDS UPON AN EVENT OF DEFAULT” AND “CONDITIONS TO PURCHASE OF BONDS”, THE OBLIGATION OF THE BANK TO PURCHASE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. IN ADDITION, THE INITIAL LIQUIDITY FACILITY DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE BONDS.

#### Purchase of Tendered Bonds by the Bank; Purchase of Bank Bonds by the School

Subject to the terms and conditions of the initial Liquidity Facility, the Bank agrees to purchase, from time to time on or prior to the Standby Purchase Commitment Termination Date, Tendered Bonds at a price equal to the principal amount of such Bonds plus (if the date of such purchase is not an Interest Payment Date) accrued and unpaid interest; provided that the aggregate purchase price payable by the Bank at any time for Tendered Bonds shall not exceed the Standby Purchase Commitment.

After Bonds are purchased by the Bank, such Bonds will constitute Bank Bonds. Bank Bonds will bear interest at the Bank Rate described in the initial Liquidity Facility, payable as provided in the initial Liquidity Facility. Bank Bonds are subject to optional and mandatory redemption in accordance with the Standby Bond Purchase Agreement. In the event the Bank from time to time is the owner of any Bank Bonds and no Alternate Liquidity Facility has been provided, the Bank will, subject to having all or a portion of such Bonds redeemed pursuant to the Indenture, continue to hold such Bonds as Bank Bonds until the Termination Date, provided, however, that the School will purchase the Bank Bonds from the Bank on a date which is no later than five years after the date the Bank became the owner of such Bonds, at a price equal to 100% of the principal amount of such Bank Bonds and Accrued Interest thereon at the Bank Rate.

### Other Provisions of Initial Liquidity Facility

The initial Liquidity Facility contains, among other things, conditions to the initial effectiveness of such Liquidity Facility (including delivery of relevant documents, certificates, a specimen of the Bonds and legal opinions and payment of certain fees and expenses payable to the Bank), provisions as to payment of an Upfront Fee, and evidence from S&P to the effect that the Bonds will be rated “AA-” by S&P. The initial Liquidity Facility contains various representations and warranties of the School, including but not limited to: accuracy of representations and warranties contained in certain other related documents, corporate power and corporate authorization of documents; no conflict with laws, charter documents or other agreements; no defaults under any contracts, agreements or judgements which would have a material adverse effect on the financial condition, results of operation, business or prospects of the School or its ability to perform its obligations under the Standby Bond Purchase Agreement or any Related Document; no Governmental Approvals; enforceability of documents; compliance with ERISA; the School is a tax-exempt organization; the School has good marketable title to all of its assets; no material litigation; the School is not an investment company or a holding company; no material adverse change in the financial condition, results of operation, business or prospects of the School has occurred since June 30, 2004; the financial statements of the School as of and for the year ended June 30, 2003 and 2004 present fairly the financial condition of the School as of such date and the results of operations for the period then ended, all in accordance with GAAP; and no material misstatement of fact or misstatement of a material fact. The initial Liquidity Facility also contains certain affirmative and negative covenants of the School, including covenants as to: limitation on certain amendments to bond documents; payment and performance obligations under bond documents relating to the Bonds; compliance with Applicable Laws; maintenance and compliance with Governmental Approvals; maintenance of the tax-exempt status of the Bonds; maintenance of certain liquidity levels; notification to the Bank of any change in the credit rating of the School; use of the proceeds of the Bonds in accordance with the terms of the Indenture; maintenance of the School’s existence and tax-exempt status; maintenance of a Trustee; not entering into agreements that conflict with any of the documents related to the Bonds; maintenance of the School’s property in good repair and operating condition; no creation of any liens and encumbrances on the School’s properties without the Bank’s consent; making further assurances; not making any untrue statement, of a material fact or omit to make the same in the Official Statement; delivery of certificates as to defaults; notices of actions, suits and proceedings; annual and quarterly reporting requirements; limitations with respect to voluntary redemptions or conversions; compliance with ERISA; furnishing information at the Bank’s reasonable request; permitting inspection by the Bank; and obtaining an Alternate Liquidity Facility in certain circumstances. The initial Liquidity Facility also contains provisions as to limitation of liability of the Bank, payment of expenses and indemnification, payment of taxes, notices and other miscellaneous provisions.

### Events of Default

The following is a summary of the “Events of Default” under the initial Liquidity Facility:

- (a) Any principal of or interest on any Bond shall not be paid when due; or

(b) Any authorized representative of the School shall claim or assert in writing that the School has no further obligation under the Standby Bond Purchase Agreement or any Related Document, or any Governmental Authority with competent jurisdiction shall find or rule that the Standby Bond Purchase Agreement or any Related Document is wholly invalid or unenforceable or is invalid or unenforceable with respect to the provisions which require the School to pay the principal of or interest on the Bonds; or

(c) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (1) relief in respect of the School or of a substantial part of its property or assets under any Federal or state bankruptcy, insolvency, receivership or similar law, (2) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the School or for a substantial part of its property or assets or (3) the winding up or liquidation of the School; and such proceeding or petition shall continue undismissed for 30 days or an order or decree approving or ordering any of the foregoing shall be entered; or

(d) The School shall (1) voluntarily commence any proceeding or file any petition seeking relief under any Federal or state bankruptcy, insolvency, receivership or similar law, (2) consent to the School of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (c) above, (3) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the School or for a substantial part of its property or assets, (4) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (5) make a general assignment for the benefit of creditors, (6) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (7) take any action for the purpose of effecting any of the foregoing; or

(e) The rating assigned by S&P to the School's unsecured long-term debt is withdrawn, suspended or reduced to below "BBB-" (or its equivalent rating) by S&P, and the rating assigned by Moody's to the School's unsecured long-term debt is withdrawn, suspended or reduced to below "Baa3" (or its equivalent rating) by Moody's; or

(f) Any representation or warranty made by the School herein or by the School in any certificate or other document delivered pursuant hereto shall prove to have been incorrect in any material respect when made or deemed made; or

(g) The School shall fail to perform or observe any term, covenant or agreement contained in the Standby Bond Purchase Agreement on its part to be performed or observed; or

(h) The School shall fail to pay, or cause to be paid, within five days of the due date thereof, any fees or other amounts payable under the terms and provisions of the Standby Bond Purchase Agreement; or

(i) (1) The School shall fail to pay when due (after any applicable grace period) any amount payable in respect of any Indebtedness with an aggregate principal amount in excess of \$1,000,000; or (2) the School shall fail to observe or perform any other term, covenant, condition

or agreement contained in any agreement or instrument evidencing or governing any Indebtedness with an aggregate principal amount in excess of \$1,000,000 and such failure shall cause, or permit the holders of such Indebtedness or a trustee on their behalf to cause, such Indebtedness to become due prior to its stated maturity; or

(j) One or more judgments or orders for the payment of money in an aggregate amount which exceeds the School's applicable insurance coverage by more than \$1,000,000 shall be rendered against the School and such judgments or orders shall remain undischarged or unstayed for a period of 30 days, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the School to enforce any such judgment or order; or

(k) Any "Event of Default" under and as defined in the Loan Agreement shall occur.

Termination of Obligation to Purchase Bonds or Mandatory Purchase of Bonds upon an Event of Default

The consequences of the occurrence of different Events of Default under the initial Liquidity Facility differ significantly, including with respect to the obligation of the Bank to purchase Bonds tendered for purchase or subject to mandatory purchase. Upon the occurrence and during the continuance of an Event of Default as described in paragraph (a), (b), (c), (d) or (e) above under the caption "EVENTS OF DEFAULT" or if the Bonds are deemed taxable pursuant to any determination by the Internal Revenue Service, (1) the Bank's obligations to purchase Bonds under the Standby Bond Purchase Agreement shall immediately terminate without notice or demand to any person, and (2) within 45 days, the School will purchase all Bank Bonds from the Bank at a purchase price equal to 100% of the principal amount thereof plus Accrued Interest thereon at the Bank Rate to the date of purchase. The School will cause the Trustee to notify all Bondholders of the termination of the Bank's obligations to purchase Bonds under the Standby Bond Purchase Agreement.

Upon the occurrence of any Event of Default described in paragraph (f), (g), (h), (i), (j), or (k) above under the caption "EVENTS OF DEFAULT", (A) the Bank's obligations to purchase Bonds under the Standby Bond Purchase Agreement shall immediately terminate on the tenth Business Day following the date the Bank gives notice to the Bond Trustee, and (B) within 45 days of the effective date of such termination, the School will purchase all Bank Bonds from the Bank at a purchase price equal to 100% of the principal amount thereof plus Accrued Interest thereon at the Bank Rate to the date of purchase.

The Bank agrees to give the Bond Trustee notice of the occurrence of any Event of Default at the time the Bank becomes aware of such Event of Default; provided, however, that a failure by the Bank to give such notice shall in no way limit the Bank's rights under the Standby Bond Purchase Agreement.

Conditions to Purchase of Bonds

The conditions to the Bank's obligation to purchase Tendered Bonds include the following: (1) the Bank shall have received from the Remarketing Agent a Preliminary Notice as described in the initial Liquidity Facility by 4:00p.m., California time, on the Business Day

immediately preceding such purchase date; (2) the Bank shall have received from the Bond Trustee a Purchase Notice as described in the initial Liquidity Facility by 8:30 a.m., California time, on such purchase date, (3) no Event of Default as described in paragraph (a), (b), (c), (d) or (e) under “EVENTS OF DEFAULT” above shall have occurred on or before such purchase date; and (4) all conditions precedent to the Bank’s entering into the Standby Bond Purchase Agreement shall have been fulfilled to the satisfaction of the Bank.

#### Term of the Initial Liquidity Facility

The term of the initial Liquidity Facility will be until the Stated Expiration Date. The School may at any time prior to ninety days before the first anniversary date of the Standby Bond Purchase Agreement (and within ninety days prior to each yearly anniversary date of the Standby Bond Purchase Agreement thereafter in respect of succeeding one-year extension periods provided for therein) request in writing that the Bank agree to extend the then Stated Expiration Date. The Bank agrees to notify the School, the Trustee and the Remarketing Agent in writing within thirty days before the applicable anniversary date whether or not it agrees, in its sole discretion, to such extension, any such extension to be for an additional period of not more than one year. The Bank's failure to so timely notify the School shall be deemed to be an acknowledgment that the Bank has rejected such request for an extension. The School agrees to provide the Bank such financial and other information that the Bank may request in connection with its consideration of the request for an extension. At the time of any extension the Bank may, in its sole discretion, renegotiate terms and conditions of the Standby Bond Purchase Agreement, including the commitment fees and the Bank Rate; provided, however, that the Bank shall advise the School of any such proposed changes no later than the written notice of its election to extend.

#### Certain Definitions

Set forth below are definitions of certain capitalized terms used in the foregoing description of the initial Liquidity Facility. Capitalized terms not defined here will have the meanings assigned to them in the Indenture.

“Accrued Interest” means, with respect to any Tendered Bonds to be purchased under the terms and provisions of the Standby Bond Purchase Agreement, the accrued interest on such Tendered Bonds to but not including the date on which such Tendered Bonds are to be purchased.

“Alternate Liquidity Facility” means a substitute or alternative or additional liquidity facility, including the provision of liquidity by the School, which is substituted or replaced for the Standby Bond Purchase Agreement in accordance with the provisions of the Indenture and the Standby Bond Purchase Agreement.

“Bank Bonds” means Bonds purchased and held by or for the account of the Bank in accordance with the provisions of the Standby Bond Purchase Agreement; provided, however, that if the Bank elects to retain ownership of any Bank Bond for which the Remarketing Agent has found a purchaser, as permitted by the Standby Bond Purchase Agreement, then such Bond

shall thereafter cease to be a Bank Bond under the Standby Bond Purchase Agreement and the Indenture.

“Bank Rate” means the rate of interest which is equal to the Base Rate from time to time in effect; provided, however, that (i) if the interest accrued on all of the Outstanding Variable Rate Bonds (including but not limited to Bank Bonds) from the first day of such calendar month to and including such day would be greater than the Maximum Permitted Interest for such period, then the Bank Rate for such day shall be equal to the rate that will result in the Maximum Permitted Interest accruing during such period and (ii) if as a result of the foregoing proviso a Deficiency arises during any calendar month and any Bank Bonds are held by the Bank during a period when the interest accruing on all of the outstanding Variable Rate Bonds (including but not limited to Bank Bonds) is less than the Maximum Permitted Interest, then if and to the extent the Deficiency has not been theretofore paid the Bank Rate shall, for each day in such period until such Deficiency is recovered in full, be increased to the rate which will result in the Maximum Permitted Interest accruing during such period.

“Base Rate” means the higher of (i) the Prime Rate or (ii) the Federal Funds Effective Rate plus 50 basis points.

“Deficiency” means, with respect to any calendar month, the difference between (i) the amount of interest that would have accrued on all Bank Bonds during such calendar month if they had borne interest at the Base Rate at all times when held by the Bank and (ii) the amount of interest that actually accrued on such Bank Bonds during such calendar month giving application to the Maximum Rate.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations issued thereunder.

“Federal Funds Effective Rate” means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 9:00 a.m. (Denver time) on such day on such transactions received by the Bank from three federal funds brokers of recognized standing selected by the Bank in its sole discretion.

“Fixed Rate” means a fixed rate of interest determined in accordance with Article II of the Indenture.

“GAAP” means generally accepted accounting principles in the United States of America as in effect from time to time and for the period as to which such accounting principles are to apply.

“Government Approval” means an authorization, consent, approval, license or exemption of, registration or filing with, or report to, any governmental or regulatory unit.

“Governmental Authority” means any federal, state, municipal, national, foreign or other governmental department, commission, board, bureau, court, agency or instrumentality or political subdivision thereof or any entity or officer exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or any court, in each case whether associated with a state of the United States, the District of Columbia or a foreign entity or government.

“Indebtedness” means, without duplication, all liabilities, contingent or otherwise, which are either (a) obligations in respect of borrowed money or for the deferred purchase price of property, services or assets, or (b) lease obligations which, in accordance with GAAP, have been, or which should be capitalized.

“Interest Payment Date” means with respect to Bank Bonds only, the first Business Day of each month and on each date any Bank Bond is remarketed.

“Maximum Permitted Interest” means, with respect to any period of time, the interest that would accrue on all of the outstanding Variable Rate Bonds (including but not limited to Bank Bonds) during such period if they bore interest at the Maximum Rate for each day in such period.

“Maximum Rate” means the maximum rate of interest permitted by applicable law.

“Moody’s” means Moody’s Investors Service, Inc., and its successors and assigns.

“Multiemployer Plan” means ‘a multiemployer plan’ as defined in Section 4001(a)(3) of ERISA.

“Official Statement” means the Authority’s Official Statement prepared in connection with the offering and sale of the Bonds, as amended and supplemented from time to time.

“PBGC” means the Pension Benefit Guaranty Corporation.

“Person” means any corporation, limited liability company, trust, partnership, joint venture, association, joint stock association, or other unincorporated entity, or any government or governmental agency, body or instrumentality, or a natural person.

“Plan” means an employee pension benefit plan (other than a Multiemployer Plan) maintained for employees of the School and covered by Title IV of ERISA.

“Prime Rate” means the rate of interest then most recently announced by the Bank to its customers from time to time as its “prime rate” for calculating interest on certain loans (which may not be the lowest rate charged by the Bank at that time). Each change in the “Prime Rate” shall take effect simultaneously with any change in the “prime rate”.

“Purchase Date” means, with respect to any Variable Rate Bond, the date on which such Bond is to be purchased in accordance with Section 2.03, Section 2.22 and Section 2.23 of the Indenture.

“Related Documents” means the Bonds, the Indenture, the Loan Agreement, the Remarketing Agreement, and any other agreement or instrument relating to such documents and to the transactions contemplated hereby and thereby other than the Standby Bond Purchase Agreement as each may have been amended or supplemented from time to time.

“Remarketing Agent” means George K. Baum & Company, or the Remarketing Agent appointed from time to time in accordance with and under the terms of the Indenture.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Standby Purchase Commitment” means the obligation of the Bank under the terms and provisions of the Standby Bond Purchase Agreement to purchase Tendered Bonds from time to time before the Standby Purchase Commitment Termination Date up to but not exceeding, at any time, (i) the aggregate principal amount of Variable Rate Bonds then Outstanding plus Accrued interest thereon for up to 34 days at an assumed rate of ten percent (10%) per annum, less (ii) the amount thereof used by the Bank to purchase Bonds under the terms and provisions of the Standby Bond Purchase Agreement equal to 100% of the principal amount of such Bonds so purchased plus Accrued Interest thereon; but if any such Bank Bond shall be remarketed and the Bank shall have received the proceeds of such remarketing, the Standby Purchase Commitment shall thereupon include an amount equal to 100% of the principal amount of such Bank Bond so remarketed or deemed remarketed plus the amount of Accrued Interest thereon paid by the Bank upon the purchase thereof, provided that, at any time, the Standby Purchase Commitment shall not exceed the amount stated in (i) above. On the date of execution of the Standby Bond Purchase Agreement, the amount of the Standby Purchase Commitment is \$20,186,307.

“Standby Purchase Commitment Termination Date” means the earliest of (i) one Business Day following the date on which all of the Bonds (other than Bank Bonds) bear interest at a Fixed Rate, (ii) the date of termination of the Bank’s obligation to purchase Bonds under the Standby Bond Purchase Agreement in accordance with the terms thereof, and (iii) the Stated Expiration Date.

“Stated Expiration Date” means the later of (i) December 1, 2009, or if such date is not a Business Day, the next preceding Business Day to such day and (ii) the last day of any extension of such date pursuant to Section 2.5 of the Standby Bond Purchase Agreement or, if such day is not a Business Day, the next preceding Business Day to such day.

“Tendered Bond” means any Variable Rate Bond which has been tendered or deemed to have been tendered for purchase in accordance with Section 2.03, and Section 4.06 of the Indenture.

“Upfront Fee” shall have the meaning as set forth in Section 2.4(a) of the Standby Bond Purchase Agreement.

“Variable Rate Bond” means any Bond which bears interest at a rate other than a Fixed Rate.



